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HIGHER COMMERCIAL EDUCATION: HONGKONG NEEDS

By Professor E. Stuart Kirby

My preceding article "Accountancy and the Universities" (FAR EASTERN ECONOMIC REVIEW, October 25, 1956) discussed broadly the recent emergence of "Commerce" subjects in a new light, in University curricula all over the world. Taking the United Kingdom in particular, it was found that all Universities there (with one exception: Oxford) offer Accountancy as a major degree course, in due association with the cognate subjects Economics and Mercantile Law. Moreover, for ten years past, this handling at University level has in the U.K. been coordinated with the role of the leading Professional Societies in granting certification and corporate standing to the vocations of accountancy and company-secretaryship, which are nowadays of great social importance.

The present Extramural Evening courses at Hongkong University in Accounting and Secretarial Practice, instituted experimentally, and the proposal to have courses in Accounting and Business Administration in future, as options in its B.A. degree in Economics (not yet however confirmed) are intended as steps in line with this significant trend.

In that preceding article, I promised to write further about the specific applications of these general questions to the case and circumstances of Hongkong. In so doing, I must make fully clear

that all statements in the following represent entirely my own personal and private views. They are considered views, from a professional standpoint, which I shall continue to advocate, subject to competent correction or modification; for I am glad to note that so far my main practical proposals at least have support in professional and business circles. But I write here strictly in the first person singular.

* * * *

The condition of Hongkong existing at all is its success in business. The measure of the scale on which it can live is the extent of its success in business. Any other activity in the Colony is, essentially, parasitic or excrement to that business which is its livelihood.

Trade come foremost. However spectacular the local industrialisation—the rate of which, though not its absolute size, is as great as that of any other country today—it still depends on trade and trade-services which secure the marketing of exports and the procurement of imports, including all raw materials and fuel. We have no foreign aid to speak of. We have no intrinsic advantages, beyond our geographical location, except our hard-workingness and our firm adherence to full freedom of enterprise; and no extrinsic advantages, beyond our adherence to the Commonwealth and the

Sterling area. Our living is made at the desk and the workbench, from day to day.

Sometimes it seems almost alarming that such a large superstructure has been built on such a relatively narrow basis: 2½ million people, real-estate on a Babylonian scale, consumer goods galore... In ECAFE, parliament of Asia's underdeveloped nations, I have jested that we are the only "over-developed" member of the Region; but there is some epigrammatic truth in the expression.

Our narrow basis is potentially exceedingly vulnerable to foreign competition, which might develop in many quarters and in a great variety of ways. In the postwar period we have largely avoided such threats. Partly perhaps through luck, partly through the mistakes of potential competitors, and partly by falling back on the cheapness of plentiful local labour. The two first-mentioned factors cannot of course be a serious basis of calculation for the future.

Nor can the third, cheap labour, be much considered, in any absolute sense at least. In this day and age, it is repugnant to the personal and civic conscience. Moreover, I would suggest from a more cogently mundane point of view, it is actually uneconomic, especially in the "white collar" category of labour which is here the one directly in question. Conditions today put a premium on relative cheapness of labour—i.e. cheapness relative to high efficiency and productivity—rather than absolute cheapness, which is inevitably associated with ignorance, dullness, slowness and wastefulness in the labour.

Though earning-capacity in export markets is the main and key consideration, the home market could also be an important factor. Our 2½ million home market must not be ignored; it is quantitatively considerable, quite a mainstay of local industries, and quite varied, interesting and expandable from the business point of view. As a matter of historical fact, normally no nation has ever emerged as a major international exporter except on the basis of, and in close association with, a healthy home market. There is a distinct case, within appropriate limits, for an "economy of high wages" in Hongkong. But any considerable trend in that direction is not practical or justifiable unless the average or norm of labour efficiency and competence is raised considerably above what it is at present.

More immediately, some such raising is urgently necessary merely to enable us to hold our own at existing levels against actual and prospective foreign competition. It is a question of raising our E : C ratio—efficiency to cost—more than the other fellow raises his. The old form of price competition—by beating down the "C" side of the ratio—no longer suffices. Something is still to be got from it, but as a policy it is now subject to sharply diminishing returns. Because competition is now largely competition in pushing up the E side faster

than the C side goes up; competition in quality, in service, in innovation and improvement, in discovering and exploiting opportunities. Low C—ignorant labour, sluggish, imperceptive and unadaptable to this requirement—"must lose", as the chess player says when he sees pawns pitted against pieces.

The export situation is transformed also in the following respect. Once upon a time, it was an open field, with the races won by the fittest and quickest. Now it is a diversified series of obstacle races. Planned economies have been established in most countries. Their forms and purposes differ everywhere, with varying balances between diverse policies, ends and means. A bureaucratic labyrinth covers the whole terrain, crisscrossed with appropriate (and inappropriate) channels, procedural requirements, etc.

This modern landscape is adorned with quotas, currency controls, tariffs, subsidies, foreign aid, special procurements, priorities, offsets, counterpart funds, earmarking, differential exchange rates, reparations, barter agreements, offshore purchases, international commodity pacts, linked allocations, and many other features once undreamed of by business men or professors alike. Besides being an obstacle race, the whole thing has also the attributes of other games such as snakes and ladders, snooker, poker, demon patience, and the three-card trick. These conditions are likely to be intensified in future, rather than relaxed.

* * *

The question arises of what the economist calls the structure of the firm. The firm, in an export economy, has got to operate in this complex setting, and cope with it in detail. In the old days, broadly speaking, our local pattern for the firm was a "few" right at the top and a largely undifferentiated "many" much lower down, with hardly any between these two levels of taipanish above and clerkdom below. (Chinese firms were not essentially different, their upper circles, on a family or other group basis, being as close as the "expatriate" circles).

Modern conditions simply impose and make inevitable, sooner or later, the introduction of a wide variety of intermediate ranks, with new and special abilities, knowledge and qualifications. They also require, if efficiency is to be maximised, that these various rungs in the middle range form a ladder, up which can be promoted, in due process and by sharp internal competition, the best of the whole labour force.

The taipan is still essential—perhaps more essential than ever—on the plane of strategy. Just as generalship is more necessary than ever; as is recognised in the armies of even the most egalitarian states. But nowadays leadership requires not merely the field of command, but a good chain of command. The boss cannot keep in mind all the details now involved, or handle them all in practice. More and more, a degree of responsibility, of decision-forming, of discrimination, of foresighted-

ness, perception, judgement, initiative, adaptation to circumstances, etc., should and must devolve downwards.

In the old structure, this was not so necessary, as subordinate functions were largely reducible to routine, conditions were static or standardised, each transaction could be dealt with by precedent, formula and set pattern. This cannot be done in the conditions which now prevail in the Western world, and are beginning distinctly to assert themselves in the Eastern, requiring a wider staff knowledge of all these matters. Paradoxically, from the point of view of "classical" education, these modern conditions put a premium on increasing technical specialisation throughout. There is also specialisation in the function of organisation itself, to correlate and combine specialist functions.

What has been said above refers especially to the commercial world, but obviously it applies, with appropriate modifications, to the sphere of manufacturing; and also to that of Government, which similarly faces the historical necessity of enlarging and revising its middle-rank structure.

Actual cases and applications vary. But I do assert that this is a major and imminent question for Hongkong now. In some firms, I know, it is an actual and practical question. Some feel that the "expatriate" basis of staffing is rapidly "on its way out"; some experience difficulty in new recruitment of expatriates, and are in practice training local replacements. At relatively lower staff levels, among the mass of firms, and in the world of indigenous business at large, however, matters are not generally so far advanced.

* * *

How, and from whence, would all these "middle" ranks and functions be furnished? Higher, and Middle, Commercial and Technical Education is, I believe, the answer. But there are several levels, and generically different categories of labour supply and demand, involved.

A normal progressive community thinks of the answer mainly in terms of the rising generation, the present and prospective intake from the schools. Few in Hongkong, however, think far ahead. An additional local peculiarity is that the rising generation is of relatively less importance than in other communities. It has, for one thing, a formidable competitor in the older generation already at work in commercial and industrial employment. The "population pyramid" of any ordinary country (envisaged as an age-diagram, with the numerous young at the broad base, tapering off to a few old people at the top, as you mark the age-groups upwards) is isosceles-triangular (tall and slim in Western countries, broad and squat in the underdeveloped Eastern lands). Hongkong's population pyramid, besides being broad and squat, has a large bulge outwards in it, not far up from the base; this represents a large immigrant population of refugees who are mainly in the lower working-ages.

The people in this bulge are already employed. There is a considerable degree, I suggest, of "concealed unemployment" (or shared employment) in this stratum, which is by modern standards not efficiently organised. Many firms are "carrying"—by a good Old Custom—a number of people, e.g. members from former branches on the Mainland, or intake already previously accepted. If conditions improve, any such slack will first be taken up, before fresh intake is widely resorted to; which is not surprising, for the reason also that these people are already experienced and trained and their loyalty already engaged. Whereas the value of the present school population is comparatively unproved.

School curricula here are strikingly short on practical subjects. The absence of Economics from school curricula or Matriculation seems quite startling, in this great business community; it has been widely included in secondary education in Britain for at least thirty years (I do not know exactly for how long; I merely disclose the date at which I myself took it in London Matriculation). How suitable are Hongkong matriculants, for entry into modern business employment? But a large new generation of these is coming forward, in addition to the pool of under-utilised labour we already have. I think primary and secondary education will have to be made more practical, to impart more knowledge of worldly realities, and more quickness and originality of mind, over and above any incidental treatment of "Civics", before it is of much use to the business world.

I must avow however that, meanwhile, the present school generation itself shows some healthy reactions. Considerable numbers try on their own initiative to study "utilitarian" subjects in their spare time, after they have coped with subjects that may or may not develop the Mind, but are not considered likely to put anything in the bread-basket. Numbers enrol in correspondence courses etc., for book-keeping, shorthand and the rest.

I was interested to note that, of about 600 applications received for the University's Extramural Courses in Accountancy and Secretarial Practice last year, some 200 were from young persons still in school. As the University courses are at post-Matric. level, and especially for entrants to the Professional Societies' examinations, these were of course all refused. But these, and many more, will presumably figure in future in the enrolment of public and private evening courses, of the Technical Colleges, Chambers of Commerce, private institutes, etc.; also of correspondence courses. Regarding the latter, I must remark that some are good, many are satisfactory, but some are not satisfactory. Colonial students sometimes have illusions about the status and qualifications of those in the last category, and may be wasting their money and time on them; something should perhaps be done to inform the public more exactly on this, while all the good facilities of this kind should be encouraged.

However, as indicated above, in default of highly competitive standards in the oncoming generation, there is at present some tendency of firms to envisage primarily the improvement and promotion of their existing staffs. In this sphere particularly all the available facilities, the Technical Colleges, Chamber of Commerce activities, Commerce Dept. of the Evening School of Higher Chinese Studies, private institutes, etc., all have strongly their parts to play, besides internal and extramural activities in the University. In this, as in all academic questions, the standards vary largely, and in a case like this the scope and pace of the whole movement must in some part be set at the top level.

The present extramural courses in accountancy etc., operated by the H.K.U. Economics Dept., should help to some extent to establish what is demanded of candidates, and what can be done, at the senior level. Some research is also necessary, which this Department may be able to undertake, as there will have to be a good deal of selection and adaptation; modern or Western methods and devices, in this technical sphere as in others, cannot just be transferred textbook-wise from that environment to this.

As far as the internal work of the University Economics Department is concerned, it attempts a realistic and experienced approach, and has gone far towards basing its instruction very concretely on local conditions and needs, which are very fully stressed in all its work. Mr. Szczepanik's book on the Economy of Hongkong will shortly be completed. The Department promotes such work as "vacation practices", by which economics students do vacation work in firms, and/or field studies, and graduate with some realistic knowledge and experience.

If it could develop further the reasonable degree of specialisation that modern conditions demand, add curricula scope in commerce subjects, find means of further research for the understanding of local conditions and the application of up-to-date ideas to the solution of local economic problems, and also draw in new students who have (as in the U.K. and other countries) already acquired a grounding fitting them for more rapid and thorough progress in these directions, all this would (in my opinion) be a good investment for Hongkong.

It must always be a basic function of a University to provide general culture, all-round character building, and so forth. Nowadays, it is equally called upon to provide strictly practical types of technical training. The former is broadly envisaged as the function of the "Arts" side, in an archaic terminology, and the latter as primarily the function of the "Science" side. I am inclined to reject the assumption that there is inevitably a polarity or antithesis between these two groups; modern life requires in the individual both character, judgement, etc., on the one hand, and technical competence on the other. The products of Hongkong education do not, in my view, seem to be well endowed with either at present; but seem to be rather

better on the technical competence angle than on the side of judgement and character.

I do not enter further here into the causes of this. I am mainly concerned to point out that there is, between the extreme groups mentioned above, a major field, one in which both these types of attributes are very distinctly required, and one which is of paramount importance to this community, that is being relatively neglected, under-appreciated, and under-invested in, at the University level especially—namely, the field of business education, of education for business.

It is the professions that matter, in the world today. Business is a profession, and one of supreme importance nowadays. It should have its own place—and a specific place, organisationally untrammelled by lumping it in with vague and immaterial fields of traditional study—in higher education. Especially is this obvious, in a community like Hongkong. Simple and practical steps in that direction, very economically planned on the basis of already available resources, representing an outlay that is extremely small compared to what is involved in the technological branches, nevertheless meet with some opposition, on grounds that seem to me to be hardly relevant.

In fact, an extension of practical services to the community in this direction could actually be planned to earn a working profit. Our present extramural courses showed a clear profit last year, though fees were very moderate. I have in mind also such a model as the London School of Economics, which is the specialist college for such things in the University of London. It simply runs a two-shift system, with all its courses duplicated in the evenings, so that young business men can attend, and proceed to the same degrees as day students. The University of London also gives External Degrees, accessible to any comer who can make the grade. The fees give the University of London a substantial income. I do not see why the same should not be done here. This approach in the case of London, besides enhancing national business efficiency, enlarges professionalism—which means broadening the institutional elements of integrity, solidarity and loyalty to society, such as it would be no bad thing to cultivate more positively in this Colony.

Our actual and immediate needs are however merely to get going on the Commerce side, by implementing next year our proposals for adding courses in Accountancy and Business Administration as options in our Economics degree.

I do not think we can afford to be apathetic, indecisive or amateurish about this general question. Explicit approval, in business circles, of developments in this direction would now be timely; equally timely would be constructive criticism from a business viewpoint, which is almost the only viewpoint that is relevant, in such a community, on such a problem.

SALE AND PURCHASE OF GRAIN IN CHINA

Peking claimed on October 28 that more than 90% of the peasant households in ten provinces, mostly in the north, have become members of Socialist cooperative farms, and predicted that the same ratio will be reached in the rest of the country this winter and the coming spring. New regulations recently promulgated in Peking make important changes in the unified purchase and distribution of grain in the rural areas. They shift the basis from the 100 million and more individual peasant households to the one million or so agricultural producer co-operatives—a major simplification of the settlement of accounts. More grain will be bought than planned in good areas to furnish the extra supplies required by calamitous areas.

The Peking State Council promulgated on October 7, the "Regulations Governing Unified Purchase from and Unified Sale of Grain to Agricultural Producer Cooperatives." Summing up past years' experience in making unified purchase and unified sale of grain in the rural areas, these Regulations provide a solution to some urgent questions in connection with unified purchase and unified sale of grain in the rural areas following agricultural co-operation. Are cooperatives or households to be taken as units in making unified purchase from and unified sale of grain to agricultural cooperatives? On this question, no unified rule was called for at the time of fixing production, purchase and sale of grain last year because the peasant households joining agricultural cooperatives at the time did not constitute a large proportion of the total and a number of APCs continued to operate on the principle of letting growers reap the harvests. Now that the cooperative economy forms the main body of the agricultural economy, the question assumes great importance, bearing on the foundation of unified purchase and unified sale of grain in the rural areas and therefore calls for solution.

The Regulations provide a solution to this question in two aspects: In the main aspect, that is, the dividing line between surplus and shortage of grain and the computation of the grain purchase and sale figures, the principle of taking the cooperatives as units for unified computations is laid down. This principle is in full keeping with the cooperative system of collective production and unified distribution of grain, says an editorial in the Peking People's Daily. By putting this principle into effect, the unified purchase and unified sale of grain in the rural areas may be shifted from the basis of some hundred million individual peasant households to the basis of over a million agricultural cooperatives, thereby obviating the settlement of accounts with each household and effecting a fundamental change in the grain work in the rural areas.

In the secondary aspect, that is, the way grain-surplus cooperatives sell and deliver grain to the State and grain-short cooperatives buy grain from the State, different principles are laid down. As the sale of grain to the State by grain-surplus cooperatives is the common obligation of all members of the cooperatives and as the grain stocks sold are handled by the cooperatives under centralized plans, the Regulations stipulate unified sale and delivery by the cooperatives in principle.

This will save much manpower and time and will be beneficial both to the State and to the agricultural cooperatives. As to the State supply of grain to grain-short cooperatives, the Regulations provide, in view of different demands of the cooperatives with different conditions, either unified purchase by the cooperatives, collective purchase by

grain-short members organized by the cooperatives, or free purchase by members themselves. This will enable grain-short cooperatives and members to choose the most convenient way of purchase according to their conditions, and will avoid forced uniformity which might put an extra burden on the agricultural cooperatives.

After putting into effect the principle of taking the cooperatives as units in drawing the dividing line between surplus and shortage of grain and computing the grain purchase and sale figures, the unified purchase from and unified sale of grain to agricultural cooperatives will involve two kinds of relationship, that is, the relationship between the State and the agricultural cooperatives and the relationship between the agricultural cooperatives and their members. A correct approach to these two kinds of relationship in distributing grain of an agricultural cooperative is a decisive condition for the correct execution of the policy on unified purchase and unified sale of grain and for the smooth realization of the grain purchase and sale targets of the State.

The "Regulations Governing Unified Purchase from and Unified Sale of Grain to APCs" lay down that agricultural producer cooperatives, in distributing their grain, must ensure fulfillment of the grain taxation and purchase targets set by the State, and must see to it that the targets of grain supply set by the State are not exceeded, that at the same time they must ensure the grain required by the cooperatives for communal use and required by all their members for consumption, and that any grain surplus left may either be sold to the State or distributed according to the work done by their members. Dealing with these two kinds of relationship in the distribution of grain according to this principle, agricultural cooperatives will be able to carry out the grain purchase and sale targets of the State, ensure grain stocks required by all their members and, in case of greater output of grain, give more grain to their members with best work records. This is entirely reasonable and necessary.

When "three fix" figures were last year decided upon for households, it was made public that the figures of fixed production and purchase would remain unchanged for three years and purchase would not be increased under normal conditions despite increase of production. It was also made public that, in case of serious disasters in some areas, purchase of grain would be increased in good harvest areas, not exceeding 40 percent of the increased output. Is this principle still applicable to agricultural cooperatives? This is another important question connected with unified purchase and unified sale of grain in the rural areas. To this question an affirmative answer is given in the "Regulations Governing Unified Purchase from and Unified Sale of Grain to APCs" now promulgated. Some of the areas have been hit by natural disasters this year and, under such circumstances of extraordinary disasters, the State has the need to procure more grain in areas with good harvest. Only this will conduce to stabilization of the grain situation and to the smooth progress of economic construction. At the same time, for peasants of areas with good harvests to sell, a little more grain will mean concrete action to aid the calamity-stricken areas.

Taking the country as a whole, it should be noted that output of grain will increase this year but the total quantity of grain to be procured by the State does not increase. This means that actually the peasants will possess an in-

TITOISM IN RUSSIA

By Ernst Halpern

Titoism is a device for wrapping necessary reforms and concessions in an attractive ideological cloak. Six years ago, in 1950, Marshal Tito was compelled to undertake a "destalinization" of the economic, political and ideological affairs of his country. With the aid of "Titoist" doctrine he succeeded in converting this retreat into a powerful ideological offensive.

Increased quantity of grain. The average amount of grain in the possession of peasants as a result of fixing production, purchase and sale last year was 40 catties per capita more than the previous year; grain output this year is expected to be some 20,000,000,000 catties more than last year and the average amount of grain in the possession of the peasants will be 40 catties per capita more than last year. This is expected to play an important part in stabilizing the production morale of the peasants, improving grain consumption by peasants joining the agricultural co-operatives, and developing the side occupations of agricultural co-operatives and members.

Before and after spring sowing this year, 800,000,000 yuan was paid as advanced payment for purchase of grain to those agricultural co-operatives undertaking sale of grain to the State. Subsequent events proved that this method of making advanced payment gave a great help to the agricultural co-operatives to solve their shortage of funds, regulated the rural purchasing power and conducted to the regular enlivening of the rural market as a whole. Is this method going to be continued hereafter? This is also a question of general concern. Now the "Regulations Governing Unified Purchase from and Unified Sale of Grain to APCs" clearly set forth this method as an important system to be continuously enforced in the future.

In the last grain year, the State commenced supply of grain to the grain-short peasants only when shortage of grain was felt. This method achieved good results in ensuring the supply of grain and in economizing grain. It is entirely necessary to continue to adopt this method because China's grain production level is still low and the contradiction between supply and demand is still not to be regarded with indifference. But in calculating the time of shortage Peking must take into consideration the peasants' habit of grain consumption and at the same time must make the time of grain purchase suit the convenience of the peasants. The "Regulations Governing Unified Purchase from and Unified Sale of Grain to APCs" change the monthly purchase into quarterly purchase. The People's Daily says this is a very correct measure.

It will be seen that the "Regulations Governing Unified Purchase from and Unified Sale of Grain to APCs" not only made important additions to the "Provisional Regulations Governing Unified Purchase and Unified Sale of Grain in the Rural Areas" but also represented a new development of unified purchase and sale of grain in the rural areas following agricultural cooperation. Correct publicity and implementation of these Regulations will go a step further to strengthen the agricultural co-operatives, facilitate the growth of the rural economy as a whole and raise the unified purchase and unified sale of grain in the rural areas to a new high level. It is hoped that still greater success will be achieved in the unified purchase and unified sale of grain in the rural areas during the new grain year.

The leaders of the Soviet Union today find themselves in a dilemma similar to that which Tito faced in 1949-50. The visit to Belgrade by Khrushchev, Bulganin and Mikoyan in May 1955, the Belgrade declaration of June 2, 1955, Tito's 3-week visit to the Soviet Union in June 1956, and the agreement signed on that occasion providing for collaboration between the two governments and parties seem to indicate more than an attempt on Moscow's part to patch up differences in the interest of Communist solidarity. There are definite signs, in this author's opinion, that the Soviet leaders are toying with the idea of utilizing Titoist formulas and slogans in solving their own pressing domestic problems. An understanding of this view requires a re-examination of the internal situation in Yugoslavia that gave impetus to Tito's dramatic reforms of 1950, through which "Titoism" has come to mean a positive concept of socialist economic development as well as a symbol of independence from Moscow.

The Crisis Period: 1948-50

Prior to 1950, the economy of Communist Yugoslavia was rigorously centralized and fully planned on the Stalinist pattern. A highly ambitious Five-Year Plan was underway. Among the main objectives of this plan were the laying of the foundations of New Belgrade, a city to be built for a population of 250,000 over an estimated 15-year period; the construction of a 400-kilometer super-highway between Belgrade and Zagreb; drainage of a portion of Lake Scutari; and construction of numerous dams, hydroelectric plants, and factories.

This forced-march industrialization led of necessity to collectivization of agriculture. Collectivization releases manpower for industry and, furthermore, enables the organs of party and state to exercise much more effective control over agricultural production than would be possible with even the most stringent supervision of independent farmers.

Visitors spending a few days or weeks in Yugoslavia got an impression of universal work fever and fantastic activity. But anyone staying longer soon became aware that this atmosphere was largely illusory. Construction achievements, for example, were incessantly touted, but while there were construction sites everywhere, no buildings seemed to go up; deterioration was evident everywhere in factory installations, housing and public transport. And as the production figures announced in the press rose higher and higher, the shortage of goods grew more severe.

Government revenues were far from sufficient to finance the construction program. The mint had to supply the money required, and currency deteriorated rapidly. Where the official rate of exchange of the dinar remained at the fictitious ratio of 50 to the dollar, the free rate sometimes dropped as low as 700 to 800 to the dollar. Since prices of rationed consumer goods as well as wages and charges for public services were frozen at a low level, the devaluation of the currency exercised a tremendous impact on the free and black markets. A critically large proportion of rationed goods was hoarded for purposes of resale, or simply vanished on their way to the stores, to reappear later on the black market.

The shortage of goods was further aggravated by the breakdown of the government trading system. Distribution of essential rationed foods broke down. Time and again,

all or part of the fat ration was not issued. Meat was available only once or twice a month. Items like cigarettes and matches were alternately unavailable for weeks at a time. The supply of bread was reasonably adequate in the two largest cities, Belgrade and Zagreb, but not elsewhere.

In the villages and smaller towns, stringent enforcement of compulsory deliveries and a production strike of the farmers resulted in an even greater scarcity of foodstuffs. Farmers frequently had to go to the cities to buy fat and bread at high prices from ration card holders of privileged category. This situation led to a number of uprisings in May 1950 in western Bosnia and eastern Croatia, regions which had been strongholds of the Communist partisan movement during the war.

The whole drive for industrialization was carried on during the time when the Cominform countries maintained an unrelenting economic blockade against Yugoslavia and normal trade relations were not yet established with the West. Tito and his government probably realized as early as 1948 that the Five-Year Plan could not be carried out and would have to be called off sooner or later. However, after the break with Moscow the regime apparently felt it had to go on with the industrialization campaign to keep up morale among the party cadres while they got over the shock of expulsion from the Cominform.

A Plan For Reform

By the end of 1949 at the latest, it apparently became plain to the party leaders that the situation could not continue and that drastic measures had to be taken to avert the collapse of the Yugoslav economy. The first step toward reform was the adoption in January 1950 of measures for administrative decentralization. Constitutionally, Yugoslavia, like the Soviet Union, is a federal union of several republics. Under the new decrees, a number of federal ministries were disbanded and their functions transferred to the corresponding ministries in the republics, much like what now, in August 1956, has happened in the Soviet Union.

The actual beginning of the great reform and with it the birthday of the Titoist ideology must, however, be dated from June 26, 1950. On this day the Yugoslav federal parliament enacted with its customary unanimity the Basic Law on Management of State Economic Enterprises and Higher Economic Associations by the Workers' Collectives.

This law provided that plant directors, who for the present were still to be appointed by the state, would be assisted by managing boards staffed by members of workers' councils, which were to be elected by the entire work force. The functions of a managing board were to include drawing up the annual plan and monthly production schedules of an enterprise, establishing operating regulations, generally supervising the management, making final decisions on executive appointments in the enterprise and on workers' grievances, etc. The workers' council was empowered to pass on plans, operating regulations, the budget, the balance sheet, and other miscellaneous measures taken by the managing boards. The powers of these bodies were further extended later on. Specifically, the workers' council or the general meeting of plant employees was given the right to award bonuses and to decide upon the use of operating surpluses.

Under a fully planned economy, such as the Yugoslav Communists had organized on the Soviet pattern, most of the powers of workers' committees and workers' councils would, of course, have remained a dead letter, since all functions of economic enterprise in such a system, including planning, allocation of raw materials, and operating regula-

tions, are prescribed in minutest detail from above, by the ministry. This kind of planned economy, however, was being gradually liquidated in Yugoslavia.

The individual plant became the "operating unit" of the national economy; it not only had to set up its own production programs but to arrange for its supply of raw materials and its sales. Theoretically, the government retained only the right to fix the ratio of investment in the various branches of the economy, though in practice it continued to disrupt the natural process of economic life by arbitrary interference in countless instances.

Nevertheless, the Titoist economic system has implicit in it the concept of a free market economy. To be sure, it is a market economy without private enterprise. The functions of the entrepreneur are taken over by the collective of workers and employers acting through its organs, the workers' council and the managing board. Thus, in principle, it is the members of the labor force themselves who decide on the nature and scale of production and the proportion of investment. It is up to them to obtain orders and in general to assure themselves of a market for their products. They share in the profits and are liable for operating losses with a portion of their wages; they bear the responsibility for layoffs and other economy measures; and if the enterprise operates continuously at a loss and the government does not regard it as important enough to warrant subsidies, they face the possibility of bankruptcy and the loss of their jobs.

This system has not yet fully matured, and some important questions—e.g., how to prevent undesirable monopolistic developments—are still awaiting clarification. But this much can already be said: the system has proved itself vastly superior to the Stalinist system of a fully planned economy. It has the great advantages of every market economy, namely flexibility and adaptability; above all, it eliminates the chief defect of all socialist economic systems in existence—the separation of production and distribution. The employees of a plant are not simply concerned, as in the Soviet system, with achieving the greatest possible output regardless of cost, quality or marketability; they have the utmost interest in putting good and saleable products on the market, and doing it in a manner assuring the greatest possible returns.

Emergence of a New Ideology

The immediate impulse for Tito's sweeping economic reform was, as mentioned, the immense practical difficulties confronting the Yugoslav economy in 1950. Inflation had to be halted and national bankruptcy averted. This called for drastic economy measures, suspension of work on numerous construction projects of the Five-Year Plan, and reduction of the vastly inflated government bureaucracy, which could only be achieved by a drastic program of decentralization.

The linking of these measures with a large-scale ideological offensive was aimed at avoiding any impression of a retreat, which might have demoralized the party cadres and perhaps driven them into the Cominform camp. The regime's unpalatable and harsh program was convincingly represented as a significant and desirable forward step toward socialism. This does not mean, of course, that the entire ideological offensive, the whole transition to the new Titoist ideology, was merely a clever trick to camouflage troublesome measures of monetary policy. It was actually a move to replace one economic system, which had broken down, with another and better one. The substitution was reflected ideologically in the change to "Titoist" doctrine.

The ideological offensive was opened by Marshal Tito himself in a speech to parliament on June 26, 1950, pro-

posing adoption of the Basic Law on Management of State Enterprises by Workers' Collectives. In this speech Tito described the Basic Law as a practical application of the action slogan of the working-class movement: "The factories for the workers." He also hailed it as a return to the Leninist doctrine of the withering away of the state, which Stalin had drastically revised.

To explain this, a digression into theory is necessary.

According to Marx and Engels, the state is the product of class antagonisms, the device of the ruling class to suppress and hold down the exploited classes. From this it follows logically that once a classless society has been established—that is, after elimination of class conflicts—the state loses its purpose and must disappear. On the basis of this theory, Lenin in his *State and Revolution* set up a timetable for the disappearance of the state after the revolution:

Phase One is the dictatorship of the proletariat. There is still need for the state to suppress the over-thrown class enemies, but since the working class constitutes the great majority of the population, this task is relatively easy: "The people . . . can suppress the exploiters . . . with a very simple machine, almost without a machine, by the simple organization of armed masses . . ." Phase Two is socialism. The new society still bears the stamp of the old society; the state, i.e., that simple machine which under the dictatorship of the proletariat takes the place of the complex machinery of the bourgeois state does begin to wither away, but this process can only be completed in the third or higher phase, communism.

State and Revolution was written in the summer of 1917, that is, a few months before the October Revolution, and as Lenin explicitly states in the preface the pamphlet was conceived as an action program for the immediate future. Lenin's "withering state," however, never materialized—or rather dematerialized. The new masters of Russia during the first phase of their rule could not, any more than the Tsar in his day, get along with a simple machine of suppression—or "almost without a machine." And after Stalin had announced the transition to Phase Two, that of socialism, the state apparatus still gave no sign of withering away; on the contrary, it mushroomed to tremendous proportions.

It was inevitable, especially after the great purges, that doubts should arise in the minds of the party cadres, who knew their State and Revolution by heart. Was it in any way possible to reconcile what was happening with the teachings of Lenin? Could there still be any talk of a "withering away" of the state under such circumstances? It is doubtful, of course, whether anyone in the atmosphere of terror then raging had the courage to utter this question; but even unasked, it was in the air and Stalin had to provide an answer. This he attempted to do in a speech to the Eighteenth Party Congress on March 10, 1939.

In great detail he tried to show that the doctrine of Marx and Engels could not be applied to the Soviet state because the fathers of Marxism and Leninism had given no thought to the special circumstances of a country subsisting under "capitalist encirclement." He then developed the following conclusion with reference to Phase Two, the phase of socialism in the post-revolutionary Soviet state:

In place of this function of suppression, the state acquired the function of protecting socialist property from thieves and pilferers of the people's property. The function of defending the country militarily from foreign attack fully remained; consequently, the Red Army and the Navy also

fully remained, as did the punitive organs and the intelligence service, which are indispensable for the detection and punishment of the spies, assassins, and wreckers sent into our country by foreign espionage services. The function of economic organization and cultural education by the state organs also remained and was developed to the full. Now the main task of our state inside the country is the work of peaceful economic organization and cultural education. As for our army, punitive organs and intelligence service, their edge is no longer turned to the inside of the country but to the outside, against external enemies.[†]

Tito's Challenge

This revision of the doctrine of the withering away of the state was of deepest political significance since it provided the ideological justification for the whole Stalinist system of state and society: the arbitrary rule of the bureaucracy and the police terror which epitomized Stalinism. Until 1950 Stalin's doctrine remained unchallenged throughout the Communist orbit. Then, however, Tito decided to air the issues long raised by the outside world. He declared:

In 1939, it could really be said that the Soviet Union was entirely surrounded by capitalist countries. But after World War II, when a whole series of new socialist states emerged in the proximity of the Soviet Union, there could no longer be any question of capitalist encirclement of the Soviet Union. To say that the functions of the state as an armed force, not only of the army but also of the so-called punitive organs, are directed only outwards means talking with no connection with reality, just as (such talk) has no connection with the present situation in the Soviet Union. What is the tremendous bureaucratic, centralistic apparatus doing? Are their functions directed outwards? Who deports millions of citizens of various nationalities to Siberia and the Far North? Can anyone claim that these are measures against the class enemy, can anyone say that whole nations are a class to be destroyed? Who is obstructing the struggle of opinions in the Soviet Union? Is not all this being done by one of the most centralized, most bureaucratic state apparatuses, which bears no resemblance whatsoever to a state machine that is withering away?[‡]

Tito went on to invoke Lenin's view that the proletariat had use only for an atrophying state. The Yugoslav state, he declared, was precisely such an apparatus:

Where is the beginning of this withering away process in our country? I shall mention only the following examples. First, decentralization of the state administration, especially in economy. Secondly, turning over the factories and economic enterprises in general to the working collectives to manage themselves, etc. The decentralization of the economy and of political, cultural and other aspects of life is not only profoundly democratic but has inherent in it the seeds of withering away not only of centralism, but of the state in general, as a machine of force.[§]

Tito stated further:

From now on, the state ownership of the means of production—factories, mines, railways—is passing gradually on to a higher form of socialist ownership. State ownership is the lowest form of social ownership, and not the highest as the leaders of the USSR consider it to be. Therein lies our road to socialism and that is the only right road as regards the withering away of state functions in the economy. Let the Cominformists remember that their slanderous hue and cry cannot obscure the correctness of our building of socialism.

[†] J. V. Stalin, "Report on the Work of the Central Committee of the CPSU (b) to the Eighteenth Congress of the Communist Party," in his *Problems of Leninism*, Moscow, 1953, p. 797.

[‡] Josip Broz Tito, *Workers Manage Factories in Yugoslavia*, Jogostampa, Belgrade, 1950 (English edition), p. 29.

[§] *Ibid.*, p. 24.

* V. I. Lenin, "State and Revolution," *Selected Works*, Moscow, 1952, Part I, Vol. II, p. 293.

It is not necessary here to go into the question of whether the Yugoslav system actually represents a return to Leninism. There is good reason for arguing that what Engels and Lenin had in mind was the atrophy of the very branches of the state which are still powerful in Yugoslavia—the army, police, courts—rather than decentralization of the economy and establishment of a market economy. Be that as it may, pronounced anarcho-syndicalist elements can be discerned in the new Yugoslav economic concepts.

When challenged on this score, Yugoslav Communists would no doubt answer with the ever-useful dictum of Lenin that Marxian theory is neither finished nor inviolate, that it must be developed further independently. More significant and less easy to brush aside is another objection to Titoism, namely, that his economic system is in the last analysis incompatible with the existence of a totalitarian party, and that it cannot function with any degree of efficiency or be called democratic so long as industrial plants are controlled by cells of the party of totalitarian dictatorship.

It has become a truism that in any type of organization a small but determined minority of the membership, proceeding systematically, can capture control. If this ruling clique also can prohibit the formation of any other group within the organization because it has the backing of the power of the state and, if necessary, can simply have the members of the opposition group arrested, it is obvious that nothing like democracy exists. This is exactly the case with the workers' councils and other so-called self-administering organs in Communist Yugoslavia.

Under present conditions, the system of workers' councils in Yugoslavia is consequently just a camouflage for party dictatorship. And it is probably this very absence of genuine democracy which makes Titoism so attractive to the Soviet leaders.

The Change in Soviet Attitude

Stalin avoided Titoism like the plague. He would never even engage in discussion of the workers' council system, merely dismissing it as a relapse into capitalism. He knew what he was doing, because Titoism has a propaganda advantage over Stalinism and the latter would of necessity come out second best in any debate. The advantage of Titoism derives from the fact that it has been conceived from the standpoint of the worker—a factor of controlling importance for a doctrine like Marxism-Leninism, which purports to be the ideology of the working class. The Stalinist, in having to defend the centralized direction of all enterprise by the government, is from the outset placed in the unfavorable position of having to deny self-determination and to condone the rule of bureaucracy.

In contrast to Stalin, his heirs do not shrink from contact with the Titoist "heresy." Indeed, in the Belgrade Declaration of June 2, 1955, they acknowledged that Titoism was a "concrete form of socialist evolution," implicitly recognizing the Yugoslav system of a market economy with decentralized management of production as a valid alternative to the Soviet system of centralized planning.

Titoism got a further boost at the Twentieth Congress of the Soviet Communist Party held in Moscow last February. The Congress' downgrading of Stalin meant not only the defamation of his person, but the discrediting of his theory. Certain works written or inspired by Stalin have been expressly repudiated, and others can no longer be quoted or cited without arousing suspicion. Walter Ulbricht, chief of the East German Communist Party, expressed the logical conclusion of this denigration when he

declared that "Stalin was indeed no classic exponent of Marxism."

The central core of Stalin's doctrine, the thesis of the all-powerful socialist state with its functions of economic organization and cultural education, has been shaken along with his other pronouncements. The Twentieth Congress formulated the new line of "Back to Lenin!", and every well-trained Communist recalls that on the subject of the state Lenin's views differed widely from Stalin's. Even if Stalin's heirs had the intention of defending his theory of the state, they would find it difficult going today. And in this author's opinion, if they had intended to salvage the central tenet of his doctrine, they would have been more circumspect and less radical in their attack on Stalin.

Is Russia Going Titoist?

It is essential to realize that Stalinist ideology was intimately bound up with the institutions of Soviet society created by Stalin; indeed, the ideology served the specific purpose of justifying the institutions. Specifically, Stalin's theory of the socialist state was designed to justify total planning of the economy, the centralized system of government—in short, the dictatorship exercised by the gigantic Soviet bureaucratic machine. Any action undermining the ideology would thus appear to this author to foreshadow changes in the institutions, that is, a structural revamping of the economic and governmental system.

In periods of rapid expansion and the opening up of new territories, as also during an armaments race, a total planned economy such as Stalin's possesses distinct advantages. It makes possible the concentration of all effort upon specific objectives, regardless of cost or profitable operation. But such a system is, by its basic nature, unsuited to satisfy the nation's demand for consumer goods. It is much too cumbersome to adapt itself to demand, and by separating production from distribution it also makes the producers lose all interest in improving the quality of goods or enlarging their assortment. Malenkov's program for boosting the supply of consumer goods within the framework of a total planned economy probably failed for just this reason.

The Malenkov program was an unmistakable sign that there is dissatisfaction among the Soviet people, right up to the highest ranks of the party hierarchy, over the present economy of scarcity, and that the Soviet leaders are under great pressure to do something about it. Nothing suggests that the pressure and dissatisfaction have abated in the recent past.

A market economy, conversely, is far better adapted to satisfy the demand for consumer goods than a totally planned economy. In the past, market economy and private ownership of the means of production were synonymous. Now Tito has come up with a concept of a market economy without private ownership of the means of production, based upon an ideology of revolutionary class struggle. This, much more than any consideration of foreign policy, seems to this author to be the real reason for the Soviet leaders' present interest in Titoism.

The idea that the giant Soviet Union, with its economic and political might, could be leaning at the feet of little Yugoslavia might seem grotesque. But it becomes less implausible if stated in the form of a question: What can Communists do when they are compelled by external circumstance and internal pressure to "destalinize," to abandon the totally planned centralized economy? The answer is that they must do precisely what Marshal Tito did in 1950.

Today there are a number of concrete indications, some of them already mentioned, of Soviet leanings toward the

DIRECT ACTION IN SUEZ

The famous American authority on international law, Professor A. L. Goodhart, now at Oxford University, emphasised the dangers of delay and the value of direct action in the prevention of hostilities. He draws an analogy between the action of the British Government in intervening at Port Said and the American action in the crisis in January 1955, when the Chinese Communists threatened to attack the island of Quemoy. On January 24, President Eisenhower, in a Message to Congress, asked for formal authority to take such military action as might be required, including action against the mainland if the concentration of Chinese troops there was such as to constitute an im-

mediate threat. "We believe that the situation is one for appropriate action of the United Nations under its Charter for the purpose of ending the present hostilities in that area. We would welcome assumption of such jurisdiction by that body. Meanwhile the situation has become sufficiently critical to impel me, without awaiting action by the United Nations, to ask the Congress to participate now, by specific resolution, in measures designed to improve the prospects for peace." Two days later Sir Anthony Eden, in the House of Commons, replied to Mr. Attlee by saying that the Government "are convinced that the object of the U.S. Administration has been to reduce the risks of any extension of the fighting." Within a few days Congress voted, by an overwhelming majority, the powers for which the President asked. The threatened attack on Quemoy never materialised. Mr. Dulles later attributed this to the warning that the U.S., though not directly attacked itself, was unanimously prepared, in certain circumstances, to use force in the defence of its own vital interests, and for the maintenance of peace.

Titoist economic system. Summing up, these indications are:

1. The fact that the present Soviet leaders exhibit no fear whatever of contact with the dangerous Titoist heresy.

2. The Belgrade Declaration of June 2, 1955.

3. "Destalinization," which embraces the discrediting not only of Stalin's person but also of his doctrine.

4. The gala reception accorded Tito in the Soviet Union in June 1956 and the agreements signed on that occasion for Soviet-Yugoslav cooperation at governmental and party levels.

5. The announcement of partial decentralization of the Soviet economy, to be effected by abolition of some all-Union ministries and transfer of their responsibilities to ministries of the republics. This is exactly how the reform of the Yugoslav economy began in January 1950.

The Titoist system of "socialist market economy" functions in small and backward Yugoslavia much better than the totally planned Stalinist economy did in its time, but it is still far short of satisfactory. Not the least of the reasons for this is the lack of technical and administrative cadres. The latter are in adequate supply in the Soviet Union, and the essential conditions for the functioning of a "socialist market economy" may therefore be better in that country than in Yugoslavia.

In addition, it must be borne in mind that the Soviets may well derive certain propaganda advantages by adopting the Titoist economic system. True, the last few years have proved beyond a shadow of doubt that the Yugoslav Communists are not contemplating to yield power, to abolish the secret police, to grant political rights to other parties, to establish freedom of thought and expression—in short, truly to democratize their country. Nevertheless, by instituting a "socialist market economy," by abolishing total economic planning, and by restricting the rule of an all-powerful bureaucracy, they at least gave the impression of removing the most hateful features of a Communist society. To the Soviet leaders, burdened by Stalin's legacy and anxious to streamline their system without at the same time yielding an inch of power, the Titoist formula must seem ingenious (and disingenuous) indeed.

The above considerations, then, coupled with the previously outlined moves on the part of Moscow, make plausible the supposition that the Soviet Union may be planning to adopt some of the basic elements of the Titoist system. Certainly this situation, with its vastly important economic and ideological implications, is one which warrants close attention by the rest of the world, both within and without the Soviet orbit.

When Colonel Nasser forcibly seized control of the Suez Canal in July 1956, he threatened an interest of Britain and of France and of all the other Canal users which was more immediate than the American interest in Quemoy. The seizure of the Canal was also a threat to Israel—a country with which, according to Colonel Nasser, Egypt was still at war, and which he wanted to destroy. In these circumstances it would not have been surprising if direct action had been taken, but the London Conference, by a large majority, decided to negotiate with Nasser. When he rejected this approach the dispute was referred to the United Nations, but here again the intransigence of Nasser made any settlement impossible. Then followed repeated Egyptian infiltration across the Israel border, culminating in the attack on the Dead Sea road; the Jordan election which resulted in an extremist government dedicated to Nasser's aims, and the Jordan-Egyptian military alliance. Whether strictly legal or not, the Israeli retaliation can hardly have been unexpected. They had actually reached the Canal when the British paratroops were dropped in Port Said. It is certain that the Israelis would not have stopped at the Canal: they would have gone into Cairo and thrown out the whole Nasser regime.

Replying to the criticisms about the Canal being brought into the general Arab-Israeli dispute, the British Prime Minister admitted that these questions were literally distinct from one another. But to return deliberately to a system which had produced continuing deadlock and chaos in the Middle East was now not only undesirable but impossible. Israeli communications form a vital part of the situation which has to be settled between Egypt and Israel. But for Anglo-French intervention the other Arab countries would have attacked Israel also and before long something more substantial in the way of Soviet intervention would have occurred than the despatch of squadrons of MIGs to Syria. "I am convinced that it was only the knowledge of the presence of our forces which limited the conflict in that way," said Eden.

The plain fact is that Anglo-French action stopped the spread of a conflict that would have served Soviet ends and no one else's. The Soviet aircraft that were meant to ensure, perhaps sooner than realised, Egypt's victory over Israel, were mostly caught like sitting birds on their airfield near the Pyramids, though some of the Ilyushin bombers apparently made good their flight later to Saudi Arabia.

CHINA'S FORCED MARCH TO COLLECTIVIZATION

By N. P. Smith

While Communist parties in other parts of the world have been experimenting with more flexible applications of Communist doctrine, the Chinese CP apparently has decided that China needs a more, not less, doctrinaire program—at least in the important area of agricultural policy. During the past year Chinese peasants have been organized into collectives at a fantastic rate; by comparison, Stalin's collectivization drive of the 1930's seems slow and hesitant. The results of this enormous gamble are not yet clear, but the Chinese Communist leaders have committed themselves to the proposition that collectivization in China will not cause the agricultural stagnation it created in the Soviet Union and Eastern Europe.

In the summer of 1955 only 15 percent of China's more than 110 million peasant families were organized in agricultural producers' cooperatives.¹ This is the stage just short of full collectivization: the land is farmed jointly, farm animals and large tools become the property of the cooperative, but peasants are compensated for the land they contribute. Only a few peasants were in "higher, fully socialist" cooperatives, in which the land dividend is abol-

ished and which are in fact identical to the collectives organized in other Communist countries.

In a little less than a year (by June 1956) more than 100 million households, or 90.4 percent of the peasantry, have been pressured into cooperative organizations, 73 million of them, or 61.1 percent, into the "higher" form of collective.²

This mammoth drive has followed several years of uneven and often uncertain development. Since 1953 the CCP has made clear that its ultimate goal was the full collectivization of agriculture; but in the official party view the program was to be achieved in stages, "over a relatively long period of time." The result has been a spasmodic, advance-and-halt policy alternating between campaigns for cooperativization and periods of relaxed pressure.³

The year preceding the present acceleration drive saw two such policy phases. In the summer of 1954 only 114,000 cooperatives had been organized, embracing about 2 percent of the peasantry.⁴ In September 1954, determined that the program should go forward, Premier Chou En-lai announced to the first session of the National People's Congress that 50 percent of the peasants could be organized into cooperatives by the end of the first Five-Year Plan, 1957.⁵ An immediate goal of 600,000 cooperatives was decided upon in October; by February 1955 670,000 were alleged to be in existence.⁶ Almost all of these were the lower form of cooperative. At the time the party said little about the transition to full collectivization; what few full collectives were in operation were mainly for experimental purposes.

The spring of 1955 brought a reverse trend. Poor harvests and the state's mismanagement of food distribution had resulted in a serious shortage of grain. The peasants balked, rural cadres lost confidence, and the cooperativization program braked to a halt. A vice-premier of the Peiping regime later reported that "... tension prevailed in the rural areas in the spring of this year. . . in some regions the bark was slashed from trees, hogs were slaughtered, and grain was grabbed."⁷ Contraction became the policy: by summer 1955 the number of cooperatives had been reduced to 650,000.⁸ The new emphasis on restraint was affirmed by the State Council and justified by newspapers throughout the country.⁹ At a special March conference the party approved a reduction of the 1957 cooperativization target from 50 percent of the peasantry to 33

1. Speech delivered July 31, 1955 by Mao Tse-tung, published under title *Kuan-yu nung-yeh ho-tao-she-hua wen-t'i* (Questions of Agricultural Cooperativization) by Jen-min Ch'u-p'an She, Peiping, October, 1955, p. 5. (An English translation was issued as a supplement to *People's China*, November 1, 1955).

Nasser wanted to stage a Stalingrad in Port Said, its garrison having been ordered to do so. But now he is shut up in Cairo and limited to striking heroic postures. Certainly the Anglo-French action looked like collusion or at least one-sided. But there is much more in it than these simple appearances.

Perhaps the best outcome of it all will be the permanence of an international force under the U.N., ready for despatch by air to any scene of danger as soon as the call comes. Indeed there is much to be said for international forces, under U.N. orders, in all major strategic centres to keep the peace, instead of the forces of individual Powers.

Sir Winston Churchill recalled Britain's long and honourable connexion with the Middle East. "In war we have defended them at great cost. Above all, we have endeavoured to confer on them the benefits of justice and freedom from internecine wars. Egypt had derided the Tripartite Declaration by which the U.S., Britain and France sought to impose restraint, and the last few days have brought events to a head. Unfortunately recent months have shown that it is not possible to hope in this area for American co-operation on the scale and with the promptness necessary to control events. I regret profoundly that the Egyptian reaction has forced the present course on us. But I do not doubt that we can shortly lead our course to a just and victorious conclusion. We intend to restore peace and order to the Middle East and I am convinced that we shall achieve our aim. The American Alliance remains the keystone of our policy. I am confident that our American friends will come to realise that, for the first time, we have acted independently for the common good."

2. Speech by Teng Tzu-hui at the third session of the first National People's Congress. New China News Agency (hereafter cited as NCNA), June 19, 1956.

3. For a detailed treatment of the early phases of Chinese Communist agricultural policy and collectivization (1949-54), see Richard L. Walker, "Collectivization in China: A Story of Betrayal," *Problems of Communism*, No. 1 (January-February), 1955.

4. Statistical Report for 1954, issued by the State Statistical Bureau, Peiping, September 21, 1956.

5. NCNA, September 25, 1954.

6. Mao's July 1955 speech, p. 5.

7. Speech by Li Hsien-nien, reported in *Ta Kung Pao*, Tientsin, November 8, 1955.

8. Mao's July 1955 speech, p. 5.

9. E.g., *Chekang Jih Pao*, May 4, 1955.

percent; although some party leaders voiced opposition to the slowdown, the new target was approved by the second session of the People's Congress, which closed on July 30.¹⁰

The Great Push

On the very next day, in a dramatic about-face, Chairman Mao Tse-tung personally issued the call for the latest and far more drastic speed-up of collectivization. In a speech before a special meeting of party secretaries, Mao suggested a target of 1,300,000 cooperatives for the end of 1956 and called for "basic completion" (around 80 percent) of the cooperativization drive by 1960.¹¹ At Mao's bidding, party members hurried to the countryside to "study" rural conditions for two months; in a follow-up move, a party Central Committee plenum in early October approved Mao's 1956 goal and moved the date for basic completion of the cooperative drive up to 1958.¹²

From late 1955 through early 1956 cooperatives were established at a breakneck rate; equally important, a new policy of immediate transition to full collectives was initiated. Mao in his July speech paid lip service to the party's step-by-step approach, long praised as China's distinctive contribution to Communist collectivization practice.¹³ But during the fall the party leaders, in a mood of premature confidence over the success of the drive, quietly set this idea aside; millions of peasants were pushed to make the transition from individual farming to full collectives within a few months or even a few weeks. By December, more than 60 percent of the peasants (70 million households) had entered cooperatives; by March, 90 percent were in cooperatives and 55 percent were members of full collectives.¹⁴ Since then the figures have increased only slightly (90.4 percent by June), and in recent months there have been definite signs of another let-up of pressure, as party leaders have belatedly admitted a number of difficulties and shortcomings encountered. That this let-up is only temporary, however, is indicated by a party statement in June that agriculture "in the overwhelming majority of provinces" is to be collectivized—not just organized into cooperatives, but collectivized—by the spring of 1957.¹⁵

The vacillating party line prior to Mao's speech and the tenor of the speech itself reflected an extensive dispute within the party over the proper pace of collectivization, an issue which probably was not settled until Mao himself intervened. Typical of the line of criticism voiced against rapid collectivization was the following statement:

It is impossible to expect peasants, who only yesterday were small private owners, to change right away. We might recall the situation in the spring of 1953. At that time, impatience to reach a big target produced an unfavorable effect on production. . . . It is still not possible to carry out a fundamental revolution in the reform of production technique within a short period. Within a considerable period of time, the production of agricultural producer's cooperatives in general will still not be stepped up to a great extent. . . . It is therefore impossible to change the peasants' view

of private land ownership and (their) psychology of relying on land. . . . It is still impossible to expect them to regard labor as the main guarantee of livelihood and to give up the land dividend completely. 16

In his July speech, Mao branded such views as a deviation of "rightist conservatives" within the party, adding that "some of our comrades are tottering along like a woman with bound feet, always complaining that others are going too fast."¹⁷ This cryptic warning apparently served its purpose, for after the speech the critics of rapid collectivization became silent.

New Class Struggle—For State Profit

In spelling out explicit reasons for the dramatic reversal toward immediate acceleration, Chairman Mao put primary emphasis on political issues, which he couched in doctrinal jargon. He declared:

During the last few years everyone has noticed that the spontaneous tendency in the countryside to develop towards capitalism is daily gaining strength. New rich peasants are springing up everywhere. Many well-to-do middle peasants are striving to become rich ones.¹⁸

Mao went on to assert that party members were underestimating the danger of this situation—that, furthermore, if the party did not move forward, it would surely slip backward. He called on the party to stimulate a new class struggle: not Marx's class struggle between workers and capitalists, nor Mao's old class struggle between working peasants and idle landlords, but an artificially provoked struggle between working peasants with one or two acres of land and those with four or five. He estimated that 60 to 70 percent of the peasants had so little property that they could be persuaded that they would be better off in collectives, since in collectives they would share the fruits of their neighbours' property.

Mao also gave economic reasons for the acceleration:

. . . as everyone knows, the amount of marketable grain and industrial raw materials produced in our country today is very low, while the state's demands for these items grow year by year. Therein lies a sharp contradiction.¹⁹

Mao certainly realized that this contradiction had led to recurrent agricultural crises in the Soviet Union and Eastern Europe. In China the immense and rapidly growing peasantry must eat the greater part of the food it produces, leaving only a small surplus for investment in capital goods. Mao also knew that Peiping was committed to ship considerable quantities of grain to the USSR and the satellites.

As the Communists see it, the conclusion is simple. The peasants' share must be reduced to the barest margin needed to keep him working, and the state's share must be increased to the utmost. The role of collectives was made eminently clear in a statement by a Chinese Communist writer last December:

Collectives are . . . capable of supplying more mercantile grain which is specially needed by our country in carrying out socialist industrialization. According to certain representative investigations, the percentage of mercantile grain available from the individual small peasant economy is less than 16 percent, but that from the agricultural producers' cooperative is 30 percent.²⁰

The individual peasant can withhold part of his crop and feed his family slightly more than the minimum, and it is

10. Fa-Chan kuo-min ching-chi ti ti-i-ke wu-nien chi-hua, 1953-1957 (The First Five-year Plan for the Development of the National Economy) Jen-min Ch'u-p'an She, Peiping, 1955, p. 82.

11. Mao's July 1955 speech, pp. 6-7.

12. Plenum decision, supplement to People's China, December 1, 1955, p. 13.

13. Prior to the present drive, the Communists preached the practice of allowing the peasants one year or more in mutual aid teams, an introductory form of cooperative activity, and in the agricultural producers' cooperatives; this was to give the party cadres time to make the new organizations function and to prepare the peasants for full collectives.

14. Data for December given in preface by Mao Tse-tung to "The Surging Tide of Socialism in the Countryside," People's China, February 16, 1956, p. 4; data for March from Peiping Jen-min Jih-pao editorial, May 1, 1956.

15. Teng Tzu-hui, June 1956 speech, NCNA, June 19, 1956.

16. Cheng-chih Huah-hsi (Political Study), October 13, 1955. (This article must have been written and approved before Mao's July speech had taken effect on the party).

17. Mao's July 1955 speech, p. 1.

18. Ibid., p. 31.

19. Ibid., p. 22.

20. Huah-hsi (Study), December 2, 1955.

difficult for the state to stop him. But in cooperatives and collectives every bag of grain is checked by accountants, managers, and committees, and the state's share can be assured.

Peasant Reaction

When Mao spoke, Peiping already knew that the 1955 harvest would be good. Poor harvests in 1953 and 1954 had been one cause of the slowdown in early 1955; the prospect of relative plenty in the fall was certainly a major reason behind the decision to speed up. The party apparently felt that the peasants, slightly better off than they had been for several years, could be expected to show less opposition.

Just how much resistance was actually encountered during the campaign is impossible to determine from outside China. Throughout the winter and spring the Communist press, as might be expected, was full of extravagant propaganda citing the enthusiastic response of the peasants, describing how they eagerly joined the cooperatives and then demanded that the cooperatives be transformed into collectives. The regime claimed it was not using coercive force in the campaign, relying rather on its network of rural cadres and party activists to implement the program through persuasion. Yet, in a recent report Teng Tzu-hui, Vice-Premier and Director of the party Central Committee's rural work department, belatedly admitted there had been departures from the principles of "voluntariness," a lack of "democracy," and "some serious subjectivism and ordering about" in the course of the drive.²¹ There have been official complaints that the peasants were slaughtering farm animals and of an intensified campaign against rural "counterrevolutionaries."

Peasants faced with collectivization cannot destroy their land, but they can sell their farm animals or, in a gesture of defiance, kill them. This happened in Soviet Russia, and it has been happening again in China. The Tientsin Ta Kung Pao admitted on December 21 that this had already become "a serious situation in certain rural areas today . . ."; and on December 30 a State Council directive was issued in the hope of maintaining cattle prices

and "preventing indiscriminate slaughter." In March 1956 the State Council reported that the 1955 livestock target had not been met.²²

The Chinese press also has carried reports of "counter-revolutionary activity" in rural areas. In polemical exhortations against such activity, Communist writers have admitted that the "class struggle is extremely acute" during collectivization.²³ One paper wrote last winter:

Since the exploiting class will not allow itself to be eliminated without resistance, the sabotage activities of counterrevolutionaries will increase every day and center around the cooperativization movement as it gathers greater momentum. The increasing number of cases of counterrevolutionaries sabotaging the movement in many hsien is ample proof of this point. . . . For instance, there occurred last autumn more cases of sabotage in Liaoning province than in the corresponding period of the previous year. The situation must be similar in other provinces.²⁴

A Theory of Productivity

Whatever the measure of peasant resistance, it is only one of the problems which has confronted the party. It is, in one sense, merely a complicating factor in the regime's more basic problem of raising China's agricultural productivity. In the early months of the present campaign, party planners and theorists spoke out boldly and frequently of the enormous increases in agricultural production which they supposed would result from collectivization. A remarkable document, the "Draft National Program for Agricultural Development, 1956-1967" gave official form to this optimistic view.²⁵ The Chinese Communists generally have been too cautious to set up long-range targets for other sectors of the economy, but in this 12-year program for agriculture they committed themselves to specific figures for increases of productivity in each major agricultural region. According to the plan, the average annual production of grain per hectare is to be more than doubled within 12 years, involving an increase of at least 7 percent a year—10 percent for some provinces. As one Communist writer admitted, no other country has managed an average

22. NCNA, March 31, 1956.

23. Haueh-hsi, April 2, 1956.

24. Cheng-chih Hsueh-hsi, January 13, 1956.

25. This program was submitted to the Supreme State Council on January 23, 1956. Text published in People's China, February 16, 1956.

21. Teng Tzu-hui, June 1956 speech, NCNA, June 19, 1956.

increase in land productivity of more than 4 percent per year.²⁶

How does Peiping expect to do it? The Communists think they have a simple solution: there are in the Chinese countryside vast amounts of underemployed labor; the people must work harder, and the collective is a means to organize their work and make sure it is done. The twelve-year program stipulates the number of days which men and women in the countryside must work each year.²⁷ Irrigation facilities and fertilizer may be inadequate, but, as a Communist writer explained, the party expects that "... labor power will make water and manure available; thus, generally speaking, the amount of increase in grain output is determined by the labor put in."²⁸

The burden is placed on the peasants because the state had not planned to spend much money in the countryside. The Chinese Communists are ideologically and economically committed to a program which lays primary stress on the development of heavy industry; this, they say "... is a matter of course and may be explained by the objective demands of the laws of economic progress."²⁹ The version of the first Five-Year Plan approved last year thus allotted only 8 percent of state investment to agriculture.³⁰

Whether sheer labor power can effect a substantial rise in productivity is highly doubtful. The Chinese peasant, after many thousand years of intensive farming, has become a relatively efficient farmer, considering the tools, seeds and fertilizer available. Improvements in seeds and farming techniques could raise the yield somewhat at low cost, but really large increases in productivity would require more fertilizer, better tools and more irrigation facilities. The Communists have claimed that many wells and other small-scale irrigation projects have been constructed by the peasants since collectivization, and this may be true. But large irrigation works require large amounts of capital; so do fertilizer plants and farm equipment factories.

That the Communists themselves are experiencing some belated doubts on the feasibility of this labor productivity theory has been indicated in recent months. While their basic emphasis on heavy industry has not changed, they have found it necessary to put more funds back into the countryside. It was discovered that many cooperatives lacked working capital, and there was friction because the poorer peasants did not have enough cash to pay for their shares in the common property. The state has doubled the 1956 quota for agricultural loans, although at the same time it has ordered that the system of credit cooperatives be expanded in order to absorb as much capital as possible from the villagers themselves.³¹ The party has also announced its intention to spend more money on agricultural means of production, and on goods for peasants to buy.³² But Peiping does not seem willing to scale down the targets for industrial expansion; the new concessions to agriculture still appear insufficient, and certainly not enough to bring about the increases in productivity which Peiping claims to expect.

Administrative Muddle

Many other problems remain. Most of the new collectives seem to be very slapdash affairs, and the pressing need is to get them working properly. "Model Regulations for an Agricultural Producers' Cooperative," published in November 1955 and approved on March 17 of this year, call for a complicated system of committees, managers, and production plans in each unit.³³ Collective funds must be set aside for various purposes, and members are paid according to a Soviet-style reckoning of work-norms and labor-days. This requires a capable staff, and Communist officials have shown concern over the lack of qualified personnel, particularly the shortage of accountants. New staff is being trained, but it will be a long time before it can function efficiently. Chinese agriculture has been put through a rapid reorganization as drastic in its implications as the formation of a completely new army from a mass of peasants on the eve of battle. Even if the recruits were willing and the sergeants capable, the muddle would be monumental.

As a result, "the greater part of the agricultural producers' cooperatives have not worked out labor planning, and what labor planning has been worked out is crude and not comprehensive in many cases."³⁴ In a March 27, 1956, directive on spring sowing the State Council declared:

The agricultural cooperation movement has developed with such rapidity and on such a grand scale that a number of agricultural producers' cooperatives have not gained enough time to deal properly with such problems as transfer of means of production to the cooperatives, organization of labor, and the drawing up of production plans after their establishment or changeover to higher cooperatives. Besides, a number of cooperatives are characterized by idleness of labor, confusion, unclear division of responsibility, excessive expenses of a nonproductive character, and waste. Failure to solve these questions will certainly produce an unfavorable effect on production.³⁵

That some such "unfavorable effects" have already been "produced" was admitted by Teng Tzu-hui in his aforementioned report to the June 1956 session of the People's Congress. Teng reported that in some collectives "falling output in economic crops and subsidiary occupations have greatly affected their total income and particularly their cash income, and have increased the difficulties in the daily life of their members."³⁶

A New Note of Caution

Throughout Teng's speech there were indications that the number and complexity of the problems which have arisen have had a somewhat sobering effect on the early enthusiasm and confidence expressed by party leaders. Among other shortcomings he admitted that many principles which the Communists claim to consider important had often been forgotten in the course of the acceleration drive:

Some cooperatives . . . failed to apply strictly the principles of voluntariness and mutual benefit. . . Some cooperatives have failed to show enough concern and care for orphans, widows, and the aged, weak, and disabled. . . Some cooperatives have fixed rather low prices for livestock, farm tools, woods, fruit trees and water conservation facilities placed under common ownership. . . Some cooperatives have not based their productive plans on concrete circumstances and so have inappropriately raised their targets for increased output.

Teng went so far as to hint that the pace of the present drive might have been too fast. In usual Communist fashion, however, responsibility was placed not on the policy

26. Chung-kuo Ching-nien (Chinese Youth), February 16, 1956.

27. People's China, February 16, 1956, pp. 13-14.

28. Chung-kuo Ching-nien, op. cit.

29. Ching-chi Yen-chiu, (Economic Research), February 17, 1956.

30. First Five-year Plan, p. 82.

31. Chung-kuo Chin-yung (Chinese Monetary Affairs), February 23, 1956.

32. Speech by Vice-Premier Li Fu-chun at 1956 session of the National People's Congress, NCNA, June 18, 1956.

33. Published as supplement to People's China, April 1, 1956.

34. Editorial in Jen-min Jih-pao, March 12, 1956.

35. NCNA, March 31, 1956.

36. NCNA, June 19, 1956.

itself but on its implementation by the lower level party cadres; failures, he said, were caused by

... the onesidedness and subjectivity of personnel at the lower levels and by their undue emphasis on quantity and speed; (the latter) were chiefly due to overexpanded plans of the department's concerned at upper levels and their hastiness.

In this critique of his own program, Teng Tzu-hui even inferred that he was afraid the state was getting too large a share of the crop. As he put it:

The current pressing task is to solve the problem of distributing the income and profits of the cooperatives. That is, to solve correctly the problem of the relationship between the state, the cooperatives, and the individual cooperative members.

The proposition implicit in this statement must be difficult for the party to accept: to wit, if the state's share of profits is increased too rapidly, the initiative of the collective farmer suffers. It would seem that the party is reluctantly admitting that the peasants are not as enthusiastic as the Communists expected them to be.

The party's trend toward greater caution has been reflected in the slackening off of the collectivization drive since March. On March 9, an editorial in the Peiping Jen-min Jih-pao declared that efficient production was more important than further expansion of cooperatives and collectives. The State Council confirmed this line on March 27, when it ordered that "... cooperatives that are not expanded, amalgamated or changed over to higher coopera-

tives should remain unchanged pending completion of spring sowing."³⁷ In another editorial on June 20, Jen-min Jih-pao reminded its readers that rashness in the collectivization program could be as harmful as conservatism.

These developments could possibly portend another slow-down of the collectivization schedule. It is much more likely, however, that the present period of consolidation is temporary and will be ended within a few months unless the 1956 harvest is unexpectedly bad. The Communists will probably renew the campaign this fall and drive on toward their announced goal, virtual completion of collectivization during 1957.

But meeting a target for collectives does not mean that the gamble has been won. The collectives must be made to work fairly efficiently, and the effects on agricultural production must be determined. Two important questions are still unanswered: Will Chinese agriculture be given the equipment and fertilizer it needs? What will be the long-run effect of collectivization on the peasants' willingness to produce? This summer, one year after the fateful summer of 1955, Peiping has had to modify its approach toward both these problems, and the leaders of the party's rapid collectivization fraction may well be regretting their confident statements of last January and February. Their only consolation is that Mao Tse-tung is out on the same limb with them.

37. NCNA, March 31, 1956.

BRITAIN, HONGKONG AND THE CHINA TRADE

By a Peking Observer

An Englishman of a hundred years ago would rub his eyes at the sort of remark frequently seen in the British press in recent years about trade with China. For people have been approaching the China trade from a political rather than a commercial standpoint, and throwing every kind of doubt on its potentialities. It has been claimed repeatedly, even by Government spokesmen, that Sino-British trade is kept to a trickle by China's incapacity to provide marketable goods in return for her purchases.

The whole history of the China trade over nearly four centuries shows this to be wide of the mark. The dominant fact of the first three hundred years of commercial intercourse between China and the West—from the 16th to the 19th century—was that the westerner desired the goods of the East and was able to offer little merchandise in exchange. In the earlier part of this period "luxury goods" bulked very large among exports from China—porcelain, lacquered cabinets, silks, calicoes and other fabrics. In the 18th century, however, tea became the predominant Chinese export to Britain. Trade in this commodity had the advantage that it was not competitive with any home manufacture and could be developed as fast as public taste grew. The amount of tea imported from China by the East India Company rose from six million pounds in 1783 to an average of thirty million pounds in 1810—1813. Tea from China provided at this time about one-tenth of Government revenue in England and the entire profit of the East India Company.

It is worth recalling these early phases of the China trade because, try as they might, western merchants could

not at that time arouse any interest on the part of the Chinese in the "strange and costly" objects they sought to offer in return for teas and the other treasures of the Orient, and were obliged to pay mainly in bullion and coin. At the beginning of the 19th century Britain was running a tremendous deficit in her trade with China, owing to a shortage of acceptable foreign coinage with which to pay for her purchases!

In the following decades this problem was solved, to an extent by the export of Indian raw cotton and Lancashire cotton goods, but mainly by the sale of opium—probably the largest commerce of the time in any single commodity. For the right to balance her commerce with China by shipping opium to Chinese ports, against the wishes of the Chinese authorities, Britain eventually went to war with China. The struggle for the China market is no new feature of international commerce.

The Opium War led to the opening up of the Chinese sub-continent to British trade on British terms, and to the establishment of Hongkong as a British colony. Since then, it is true, the balance of trade has not always been in China's favour. In fact, it began to be reversed during the opium period. The process was accelerated by the influx of more and more British manufactures into China after the middle of the 19th century. By the 1870s Lancashire cotton goods formed around a third of her entire imports. The problem of the West's "ability to pay" for Chinese produce was being solved not without the aid of some forcible persuasion.

Then opens the Hongkong chapter. The absorption of foreign manufactures in China was followed by the penetration into the country of foreign capital, notably through the construction of foreign-owned railways and shipping. As the scale of individual transactions increased, demanding ever larger capital resources, the trade became more dependent on banking and credit facilities in Hongkong and Shanghai. One result of this was that as much as 90% of China's foreign trade came to be actually in the hands of foreigners.

Hongkong's economic *raison d'être* during this whole period, almost up to the middle of the present century, was to act as an entrepot for British and West European trade with the mainland. Large merchant firms took on a new lease of life as Hongkong agents for British manufacturers, first of consumer and then of capital goods. Fortunes were made in the Hongkong trade as they had been a century earlier in Canton. On the eve of the Second World War the value of China's trade with Hongkong was running at more than double that with the United Kingdom itself.

Although direct trade had become firmly established between the wars there was still no sign in 1949 of its supplanting the Hongkong entrepot business. Indeed, during the first three years of the new regime in China the Hongkong trade was running at the remarkable level of £123 million per annum—more than twelve times that of the direct trade.

For several years China was buying considerably more from Britain than she was selling to her—and no doubt financing the deficit out of receipts from sterling emigrant remittances, supplemented by some current sterling earnings on other accounts. The western embargo on exports to China reversed this position. In each year since the embargo was imposed China has had a substantial favorable balance in her trade with the United Kingdom and Hongkong. Now, although the embargo is at last beginning to crumble, her sales to the sterling area have become established at a much healthier level than her purchases.

Present indications are that in 1956 China's exports to the United Kingdom and Hongkong will exceed her imports from them by more than £60 million.

The wheel has thus come full circle. Once again the Chinese are trading from a position of strength, though today the question is hardly "What merchandise would be acceptable to China in return for her produce?" but rather "What orders may we still hope to get from China after having refused her trade for so long?"

Recently Chinese enquiries for tractors, "off-the-high-way" vehicles, copper wire and cable, diesel engines and scientific instruments point the way to a renewal of engineering business in this challenging market. If one looks no further ahead than the Second Five Year Plan, due to be launched in 1957, it seems certain that a large programme of rail and road construction, mechanisation of agriculture, land reclamation and intensified mineral working will present many demands that cannot be met without extensive overseas buying. A big impression has been created among British firms, for example, by the Chinese announcement that some 1,400,000 agricultural tractors will be required over a period of twelve years, and thereafter an annual replacement of 140,000 units.

What grounds are there for thinking that trade with the new China will have the same continuous character as the old China trade? May not the bulk buying of the centralised trading agencies be switched to and fro in

response to the dictates of political expediency? And what guarantee is there that China will continue to have the means of earning sterling to finance purchases from Britain?

There are a number of considerations—some technical, some commercial and some economic—which suggest reassuring answers. The only satisfactory answer, of course, is that provided by commercial experience and study of the rapidly developing Chinese economy. There is a growing body of British manufacturers and merchants who already have a considerable experience of the commercial practice of the Chinese trading corporations. They are fortified, too, by such estimates as they have been able to make of China's long-term capacity to export to sterling markets. It will suffice to give an example of each.

Before May, 1952, when a programme of business was agreed upon by Chinese and British businessmen who had met at the International Economic Conference in Moscow, China's purchases of wool tops from the United Kingdom were averaging £350,000 per annum. Within six months—in November, 1952—Bradford firms received orders for tops to the value of more than £500,000 in the space of a few weeks. There were those who dismissed this as a flash in the pan, but they were confounded when in 1953 China continued buying heavily and absorbed in the course of the year nearly six and a quarter million pounds of tops from Bradford (worth over £3 million), taking her place as the United Kingdom's third largest buyer. This level of business was maintained in 1954. In 1955, although China's foreign trade was by then fully geared to the First Five Year Plan, and wool tops had become a somewhat marginal item, the rate of buying increased again to more than £5 million. China had become Britain's second largest customer. In the first quarter of 1956, the sales of wool tops to China were running at an annual rate of £6—7 million, far ahead of those to the other principal buyers, Canada and India.

As regards China's capacity to sell in the British market, the following is the sort of estimate generally accepted of the scope that exists for developing British imports of traditional Chinese products:

	£ millions
Eggs and egg products	8—10
Tung oil and other vegetable oils	8—10
Soya beans and products	6—8
Maize	2—4
Bristles, textiles and other raw materials	8—10
Other traditional items	6—8
Total	£38—50

The estimate of £38—50 million should be regarded rather as an initial target than as a long-term ceiling, even for the limited range of items listed. It now has to be augmented, however, to allow for the development of quite new Chinese exports to Britain. Among those already coming in are newsprint, plywood, various chemicals and canned fruits.

Apart altogether from her strong sterling position (she is currently estimated to hold a balance of not much under £100 million), China thus has every possibility of financing purchases from Britain at the rate of £60—75 million a year from the proceeds of her own sales to British firms. In other words, if all political obstacles could be removed and the trade allowed to find its own level, Britain could sell nearly ten times as much to China as she is doing at present. The net addition to her export trade, while it should not be exaggerated, could have a material effect on her overall balance of payments position.

RED CHINA'S LACK OF LEGAL CODES

The judicial system and law codes so carefully created by a number of eminent jurists in China since the Republic went down the drain when the present regime took over. Mass trials in public took over, and when, a year or two ago, efforts were made to get back to some kind of modern legal system the results were not happy. The present situation was productive of serious criticism at the recent session of the National People's Congress, and in the month or so since it ended two sets of new regulations were issued by the Ministry of Justice designed to improve the system. The first of these reforms related to the Procuratorate, and returned to them some of the rights of investigation and prosecution which had been taken over by the Police since 1949. The second reform, announced on August 11, reformed the system of assessors. Both are designed to accord a greater legal basis to the act of rendering justice. The assessors were mostly appointed by the local committees on the basis of their political or industrial or rural activities. The assessors' functions were often as a result merely social. Under the new regulations, they will be selected for two years, and they will not be called upon to attend court more than ten days a year. Each tribunal will see to it that enough assessors are elected to supply each judge with two. It is estimated that more than 200,000 assessors will be required for all of China.

It was significant of the atmosphere of the People's Congress that a former Kuomintang Minister of Interior could demand the early publication of a Civil and Criminal Code of Laws. He was a member of the Bills Committee of the National People's Congress and he told his fellow-deputies that he had recently made a tour of inspection, along with other deputies, and seen the working of the administration of justice in Shanghai and in Hangchow. All the people he and his fellow-deputies talked to on this question, including the judges and others in the judicial administration, as well as laymen, were in favour of this proposal. Justice was administered very capably and fairly on the whole and the judges—who had recently been the subject of attack from the Party people on the ground that they were too impartial and were too remote from the masses—had great prestige among the people who had confidence in them because of their fine qualities. But there were many defects that had to be put right. These were partly due to the lack of a complete code of criminal law. The procuratorate system, being new, needed more support and attention, for this system provided the best guarantees against errors in the administration of justice. He quoted problems he had found and a number of cases that had been grossly mishandled. No doubt the 20 other deputies who also spoke had similar criticisms to make. Cases were cited of false and illegal arrests, of persons being branded as criminals by employer or school as soon as the arrest becomes known, and removed from the staff or school; of cases where people had been kept under arrest for years and never been tried, especially in cases of arrest by the Public Security Police. Huang Shao-hung insisted that the regulations governing arrest and detention must be thoroughly observed.

However, even before the right to defence counsel was again conceded basic work had been done on the legal reforms, especially after the national forum on the practice of law has been summoned by the Ministry of Justice in March this year, when the work of the so-called People's Lawyers was actively started and developed in various parts of the country. By the end of May 178 legal advisers'

offices had been set up in 22 provinces, autonomous districts and municipalities. Lawyers' organisations were set up in all large cities and were being set up in many counties. Five legal advisers' offices in Shanghai answered 3,584 legal questions to callers, prepared 879 legal documents, conducted 121 civil lawsuits and defended 160 criminal cases on behalf of the accused in court in the first six weeks after their establishment. In Tientsin the legal advisers' office was sometimes approached even before daybreak! In some county towns callers came in seeking help from all the surrounding district. Many of the civil cases related to divorce. But a great many of the Communist cadres simply cannot understand how a man supposed to be on the side of the people can defend a man accused of being on the other side! The question has even been made the subject of Press polemics as to how a good citizen, who must be on the side of the State to enjoy that status, could possibly also be on the side of the accused, and thus "fail to draw a line between us and the enemy." In vain is it explained that when a lawyer or counsellor defends an accused, he is implementing the State laws and looking at all things from the standpoint of the State and the People. Another source of complaint is that some of the courts take a dim view of those who ask leave to appeal, and this criticism applies to judges and prosecutors alike. Surely to appeal is to resist the will of the State!

The President of the Supreme People's Court, Tung Pi-wu, in his report to the NPC on June 25 admitted that the work in the people's courts is directed mainly against "counter-revolutionaries". The overwhelming proportion were sentenced to reform through labour. Capital punishment had been dealt to "a very few diehards whose heinous crimes, seriously endangering the interests of the State and the people, had aroused the bitter hatred of the people. It is possible in this way to rescue most counter-revolutionaries (a euphemism for opponents to the regime or former Kuomintang officials) and through labour, reform them into people living by their own labour and useful to society." He added that the greatest caution had always been exercised in applying capital punishment, and the State had been narrowing the breadth of the application of capital punishment to criminals as much as possible. Even in the Year of Terror of 1951—when mass trials were common—in the less serious cases the accused were granted a reprieve of two years to see the results of reform through labour, said the Head of the Judiciary. (This assurance, of course, was evoked by the Khrushchev's revelations of Stalin's despotism and cruelty, the scandalous disclosures about Beria, and the agitation current in the United Kingdom especially about the abolition of capital punishment).

Tung Pi-wu asserted—and probably not without justification—that a great many who opposed the Communists before they seized power, and still tried to oppose them afterward, have altered their attitude and had begun to see their future as linked to that of the new Government under Mao Tse-tung. Magnanimous treatment is thus possible for those who repent and quickly leave the "road of darkness for the road of brightness." He did admit that there had been errors and shortcomings, weaknesses and mistakes, but in general his report was complacent and uncritical. The impact of the revelations and criticisms that came afterward must have been all the greater on the deputies, for the chief critic dealt with specific instances, not in mere generalities.

REPORTS FROM CHINA

Development of Political Trade

Commenting on the recently trade and payments agreements between China and Egypt, the People's Daily in Peking pointed out that the agreements were negotiated when Egypt was engaged in the nationalisation of the Suez Canal Company and that 'to support the struggle of Egypt', China advanced 20 million Swiss Francs to Egypt after the freezing of Egypt's pound sterling deposits by Britain. China also shipped goods in large quantities to Egypt on 'credit' to be met later by Egypt in goods.

Under the Sino-Indonesian Trade Agreement signed on November 3 in Peking, £12 million worth of goods each way will be exchanged between the two countries during the next 12 months. Chinese exports will include: machines and tools, chemicals, minerals, electrical supplies, building materials, cotton piece goods, cambrics, cotton yarn, silk and silk piece goods, paper and stationery, foodstuff, sports articles, rice. Commodities to be exported by Indonesia will include: rubber, copra, coconut oil, sugar, coffee, pepper, betel-nut, spices, timber, quinine, rattan. The validity of the payment agreement signed between the two governments on September 1, 1954 was extended to October 31, 1957. The debit balance of Indonesia, incurred in the implementation of the trade protocol signed on September 1, 1954 would be settled by the export of various kinds of commodities to China in the following three years. The two countries would strengthen economic and technical co-operation; China would supply equipment for light industry required for the economic development of Indonesia and would send experts to Indonesia as well as welcome Indonesian trainees to China for further study.

To Nepal, Peking granted economic aid amounting to 60 million Indian rupees: one-third will be given by instalments in foreign exchange and two-thirds in machinery, equipment, materials and other commodities which Nepal needs and China can supply. There are no attached conditions; Peking will not send any technical personnel to Nepal.

Scientific Research

Four institutes of research in electronics, automation, semi-conductor and technique in computation are being set up by the Chinese Academy of Sciences. The Institute of Computation Technique will study the designing, manufacture and use of electronic computers. A team is now in the Soviet Union studying computation technique and more scientists will be sent there for practical work in the installing and manufacture of electronic computers. The Institute of Electronics will study ultra short waves, ultra short-wave electronic tubes and ultrasonics. The Preparatory Commission for the Institute of Automation is under the charge of Chien Wei-chang and includes the scientists Lu Yuan-chiu, Tu Shan-cheng and Shu Sung-kuei who recently returned from the United States. The institute is expected to be established early next year. The Semi-conductor Research Section of the Chinese Academy of Sciences is being enlarged and will concentrate its activity on the manufacture of semi-conductor equipment. It is scheduled to be expanded into an institute in the next two years. An agreement for scientific cooperation between the Chinese and German academies of sciences was signed recently in Peking. Under the agreement, the Chinese and German academies will exchange scientific workers for training; each academy will also send scientific workers to the other country to conduct researches, give lectures and attend relevant scientific meetings. Cooperation in scientific studies and exchange of scientific information and materials are also provided for by the agreement. A protocol on scientific cooperation was signed by delegations of the Chinese and Polish academies of sciences in Warsaw

last month. Under the protocol, the two academies will conduct joint studies on various scientific problems. The protocol also provides for the exchange of scientific data and other materials and mutual assistance in the supply of scientific apparatus and equipment.

Industrial Growth

Eighty-nine new factories and mines started production in China during the first nine months this year, according to Peking Statistical Bureau. These enterprises will provide an additional annual production capacity of 446,000 kilowatts of electricity, 5,380,000 tons of coal, 214,400 tons of petroleum, 838,000 tons of steel ingots, 328,000 tons of pig iron, 30,000 trucks and 620,000 tons of cement. During the same 9-month period, 918 kilometres of railways and 827 kilometres of trunk highways were completed. Capital construction work completed was 54.5% more than in the same period last year. Geological prospecting carried out was 97.5% more than for the same period last year. Investment in petroleum prospecting topped all other mineral prospecting and exceeded the investment in the search for oil during the same period last year by 120.8%. Designing organs completed blue prints for several hundred important projects for next year and the second five-year plan period.

Peking also claimed that China's chemical industry would produce 15% more this year than last. Two hundred new products would be produced this year. Output of chemical fertilizer and insecticides would go up by 78% over last year. Output of rubber products would be up by 10.3% compared with last year. All rubber tires and parts for trucks produced by the No. 1 Motor Car Plant are now made in China. Research and trial production are being conducted on 18 new products which include tyres for tractors, motorcars, heavy duty trucks and solid tyres. Balloons for meteorological purposes and gloves for surgical operations are being made from concentrated natural rubber latex.

Natural Resources

A coalfield with 20-metre thick seams was recently discovered in northeastern Chinghai. Located 100 kilometres from Sining, the field is 120 kilometres long and 15 kilometres wide. Prospecting began on this plateau (3,000 metres above sea level) this April. In Kiangsi, a 42% increase of output was registered by the Pingsiang coal mine in the first ten months this year as compared with the corresponding period last year. More than 200 coal combines, coal cutters, electric drills, pneumatic picks and electric locomotives have been added to the mine's equipment this year. Digging, extracting and hauling have been mechanised. Iron ore deposits estimated at 600 million tons have been discovered in two places along the Yangtze River in western Hupeh. Their average thickness ranges from two to three meters and the iron content reaches 40%-54%.

Agricultural Developments

The Vice-Minister of Agriculture claims that China's total cotton output this year is above the 1.635 million tons set for 1957 and tops last year's harvest by 117,000 tons in spite of serious damage by typhoon and flood in some areas.

Output of grain in Shensi this year will reach more than 5.75 million tons, surpassing the 1957 target by half a million tons. An increased grain harvest some 50% above last year has been reaped in Kansu. The total output is estimated at 5,850,000 tons. China's largest tea-producing province, Chekiang, this year harvested 22,000 tons of tea. Another major tea-producing province, Anhwei, picked 19% more than last.

DEVELOPMENTS AND PROSPECTS IN JAPAN

JAPAN-RUSSIA RELATIONS

The suspension of the Soviet-Japanese negotiations was due to the obstinate stand taken by the Soviet Union with regard to the territorial question. What was most unpleasant throughout the talks was the Russians' peremptory attitude toward Japan. If relations between nations were determined simply by power, including the force of arms, there would be no chance for Japan, powerless as she is now, to stand firm for justice against the Soviets. Japan would have no choice but to yield to the pressure exerted

Mongolia expects to increase its number of cattle by 1,500,000 head this year. Mongolia now has more than 24 million head of cattle.

Communications

Construction of a circular experimental railway is now under way in the eastern outskirts of Peking. The railway will include a circular line 10 kilometres long with a straight section over 1,000 metres long and five curved sections with radii ranging from 200 to 1,000 metres within the circle. This circular railway will be used for testing the capacity of various types of locomotives and wagons as well as accessory installations. In Foochow, the 700-kilometre Yingtan-Amoy Railway is nearing completion. Meanwhile, the two-kilometre embankment linking Amoy Island and the mainland has been completed. Its surface is 19 metres broad. The Yingtan-Amoy Railway will run across these embankments to the port of Amoy. Construction of the two embankments started in 1953 and 3,700,000 tons of stone were used.

The new 2,309-kilometer airline between Peking and Tardin will be opened to traffic soon. The flight takes 7 hours and 46 minutes. There will be stop-overs at the Paotow and Lanchow airfields. Tardin is in the western part of the Tsaidam Basin where large-scale oil prospecting is in progress.

Industry in Kansu

Kansu now has 118 relatively large factories. Large-scale capital construction started in 1950. The total industrial output of the province last year was 6.5 times that of 1949 in value. The largest oil refinery in China is now established in Lanchow. An oil drilling equipment factory is being set up in the city. Other projects under construction in Lanchow include a thermo-power plant, coal mines and farm tool factories. The iron, coal, lead, zinc, copper and other mineral resources found in the province in the last six years will be utilised to set up a series of heavy industry factories and mines during the second and third five-year plans. Highways to the autonomous chou and counties of the Mongolians, Yukus Kazakhs and Tibetans have been built and a railroad network is being constructed with Lanchow as its centre. It will connect Kansu with other parts of the country.

Bank Deposits and Loans

Total deposits in the People's Bank of China amounted to 1,990 million yuan (a little more than 290 million pounds sterling) at the end of the third quarter this year, according to an official report. According to the estimate of the Bank, the target of 400-500 million yuan of new bank deposits for the current year can be achieved. New bank deposits for the first three quarters of the year have already exceeded 340 million yuan. Loans granted this year by the Bank more than doubled the amount granted last year; the increase was estimated to reach 119%. Loan recipients included state and joint state-private enterprises, handicraft industries and cooperative societies. Bank loans made up 60% of the circulating capital of these enterprises.

by the Soviet Union. The Soviet Union, after all, is a victor nation, although the war it declared unilaterally upon an already defeated Japan lasted only a week. It still possesses a colossal military force, which is now armed with thermonuclear weapons. However right and just Japan's stand may be, only the Soviet will would prevail—if the international community is governed only by force. But such a rule must not be allowed to prevail. It must be admitted that power, including the force of arms, remains one of the decisive factors determining the relationships among the nations. It is also indisputable, however, that we have advanced to that state where international society is guided by the principles of justice and moderation. If an unreasonable demand of a strong power was to be admitted simply because it is made by a powerful nation, we could not hope for peace and human progress. Racial equality, self-determination of peoples, disapprobation of aggression, freedom of the seas, opposition to old and present-day colonialism—all these are part and parcel of the international justice that has come to the fore to remedy relations based solely on power. These are the principles that must be put into practice to guarantee peace and the progress of mankind. International justice is the basis upon which Japan has pushed her talks with the Soviets. This is why Japan has insisted upon her claims on territorial matters in her negotiations with Russia.

Japan is timid in claiming international justice. Her political leaders lack faith in justice. They are making the mistake of indicating that Japan must bow before force. This attitude has helped drive Japan into a corner. The lack of faith that justice, backed by world opinion, can be made to prevail has, moreover, been translated into disunity and disorganization in Government policy and in public opinion. More deplorable is the fact that some politicians are utilizing the negotiations with the Russians to further their interests. They are so engrossed into their factional struggles that the welfare of the nation is furthest from their thoughts. The question what to do with relations with the Soviet Union is a vital matter to Japan's destiny.

Japan must try to remain friendly with Russia and also with other neighbours but that will prove a difficult proposition. Moscow, under Czar and at present, has never entertained truly friendly intentions towards Japan. Essentially, Russia remains hostile. But peace with Russia must be reestablished and the present visit of Premier Hatoyama will probably see the signing of peace treaty but leaving open many questions including the restitution of several islands to Japanese sovereignty. Tension between Moscow and Tokyo will continue though it will be played down by diplomatic quarters. Facts of history however cannot be altered.

After the war, the greatest beneficial development for Japan was the growing friendship with America. The continued prosperity and reestablishment of Japan as a great power in the modern world will depend on the intensification of the cooperation with the US. A Japan-US alliance is also guarantee for stability in the Pacific and East Asian regions. In due course such an alliance will exert its influence on East Asian states, especially China under the communists who, at least during the present stage of development, are Moscow's loyal servants.

FROM DOWNFALL TO PROSPERITY

The most harassing problem in Japan's postwar economy has been the shortage of capital. Its traces can

still be seen in the overloaded public transportation network, the antiquated equipment in industrial plants, the housing shortage and, above all, in the high interest rates. Before the war, Japan was also far from rich in capital. Her financial system, along with her technology, had been borrowed from the West. But a low level of savings stunted development of the money market, and credit availability remained behind those of other countries. The war magnified these defects and left the nation's finances in a shambles—incapable of coping with postwar needs. The defeated, war-damaged country required huge funds to rebuild its economy. But because everything the nation could turn out, had to be consumed merely to survive, saving was almost impossible. Shortages of consumer goods forced up the price level and what savings existed became worthless. Under such conditions, Government can print more money, but that only accelerates inflation.

Thus, postwar reconstruction presented a monumental task and one which demanded outside help. Even with such aid it took Japan 10 years to achieve financial stability following the war. At the end of World War II, the Government owed large sums of money to private companies and banks for military supplies and equipment purchased during hostilities. Because payment was never made, private business was forced into an endless chain of borrowing and reborrowing for the next decade. The loss nearly wrecked the banking system. To make things worse, wholesale prices rose 60 per cent during the last year of the war and another 500 per cent in 1946. Compared with two years earlier, a thousand yen could buy less than ¥100 worth of commodities. The inflation had one self-compensating factor—businessmen were reluctant to extend credit over a long term (which would have fanned inflation) for fear that their money would be worthless when it was returned. It also discouraged individuals from depositing funds in banks. Interest rates, never low, soared to new heights. Long-term bank loans at 12 per cent or more became common; private money lenders were charging 40 per cent per year. As the inflation showed, the problem lay not so much in a shortage of money in circulation but a lack of funds for reconstruction purposes. People wanted to spend money for consumption goods or assets which would appreciate. There was little incentive to invest in long-term projects with uncertain returns. The shortage of commodities, not the scarcity of capital, dominated price movements.

In order to provide funds for reconstruction, the U.S. Aid Counterpart Fund was established in 1946. The fund was continually replenished with receipts from the sale of American aid goods. The Government set up the Reconstruction Finance Bank for the same purpose. In 1949, with prices still spiraling upward rapidly despite production boosts, Joseph Dodge arrived from the United States to straighten out the mess. His cure was a novel one from the Japanese stand-point—balancing all accounts of the Government so that total expenditures were no more than receipts. Dodge also pegged the Japanese yen at 360 to the U.S. dollar. The sharp expansion of currency consequently was checked and prices halted their advance. Although many industries had been partly restored with the aid of funds from the Reconstruction Finance Bank and the U.S. Aid Counterpart Fund, the Dodge plan at the same time intensified the shortage of industrial investment funds. In 1950, commercial banks were permitted to issue bonds for sale to the Government. This action helped, but was far from enough to ease the capital shortage. With the outbreak of war in Korea, business activity picked up. Exports and U.S. off-shore procurement expanded sharply. Money quickly increased and with it the price level. Inflation was back once more. But now industry found it necessary to expand in order to cope with the flood of

wartime orders. Since national savings were low and consumption high, the supply of investment capital was again far short of demand. The inevitable result was a tremendous expansion of credit. When the banks ran out of their own money they turned to the Bank of Japan for additional funds. Because commercial interest rates were higher than those of the Bank of Japan, the commercial banks could earn substantial profits by borrowing from the Bank of Japan and relending to industrial users. This overloan tendency continued until March 1954 when bank borrowing from the Bank of Japan reached a peak of ¥437 billion.

Late in 1953, the Government adopted a deflationary policy to check the price rise and balance Japan's trade. Credit was drastically restricted (by raising Bank of Japan rates) and imports slashed. At the same time, export incentives were established. The Japanese economy soon plunged into depression. Large firms weathered the blow without difficulty since their credit lines to major banks were well established. But, in 1954, a wave of bankruptcies swept through the inadequately financed medium and small scale businesses. Domestic industrial and consumer demand dropped and businessmen turned their eyes to the more lucrative overseas markets. What finally put the nation's finances on a sound footing was the export boom. Business earnings soared to record levels while the price level remained stable.

The new prosperity gave Japan's industries a breathing spell in which to consolidate their gains. Part of the added income went into modernization of production facilities (bolstered by loans from the Japan Development Bank). But a large portion of earnings was used to liquidate long-standing debts. A large inflow of funds enabled the commercial banks to repay their borrowings from the Bank of Japan; such loans dropped to ¥18.4 billion by April this year. By the end of 1955, with investment demand inactive, the postwar capital shortage had been eased.

Today, business is more stable financially than at any time since the war. Working capital is adequate. The ratio of short-term debts to current assets has improved for many firms and reserve funds are growing. In recent months, businessmen have turned from retrenchment to expansion. Industrial loans and advances from the Bank of Japan have risen. As a precautionary measure in the face of a renewed firmness in prices, the Bank of Japan this month raised interest rates on some loans. The industrial expansion does not pose any threat to stability. The outlook is encouraging and prosperity is assured.

PROGRESS & PROBLEMS

In the 11 years since surrender Japan has grown economic muscles. It is first in the world in fishing haul, second in shipbuilding, third in cotton textile production, sixth in steel, and its foreign exchange reserves rose from almost nothing to a postwar record of \$1,396,000,000. The rate of recovery has been the fastest of all war-ravaged nations. It outstripped the spectacular showings of West Germany, Italy, France and Britain.

1955's national income of \$18.2 billion is 47 per cent higher in real terms than that of prewar-boom 1934-36, and Japanese are spending 6.9 per cent more on living necessities. In March and April industrial production soared to double that of 1934-36.

The reasons for the comeback are general postwar prosperity that buoyed economies throughout the world, stimulus of Korean War orders and world-wide hunger for goods left in the wake of World War II; the industrious Japanese people themselves, in the variety of their technical skills, understanding of mass production and organization of society from top to bottom to promote production.

The tide of goods now pouring from Japanese factories overflowed home shores. Screams have come from some sectors of the American economy. First it was cotton textiles. Then tuna fish, umbrella frames, pottery and porcelainware, plywood, photographic equipment, toys and high-fidelity speakers. Other substantial Japanese dollar earners have been sewing machines, optical goods, tea, pearls, imitation jewelry, ornamental flowers, carpets and rugs. A storm blew up in cotton textiles. South Carolina and Alabama passed laws requiring merchants to display signs stating, "Japanese textile sold here." U.S. textile representatives complained their cotton blouse sales dropped 30 per cent, gingham 47 per cent and velveteen 71 per cent under Japanese "hit-and-run tactics" of concentrating on a few key markets. Japan, fearing reprisals, last April cut back annual cotton blouse exports 2½ to 1½ million dozen. The crisis subsided. An almost equally serious situation seems developing in umbrella frames. Japan is landing them in America for 31 cents each, 19 below U.S. wholesale price. It is expected to send seven million this year, ten times 1955's 714,000. Resentment lingers on among California fishermen who are undersold by Japanese canned and frozen tuna imports. But the cotton issue seems the most serious. It smolders in a pending Congressional resolution that would call upon the Tariff Commission to impose textile import quotas. Should this happen, other interests would demand like treatment and a major prop of America's foreign trade program—of necessity linked to foreign policy and America's security—would come tumbling down.

There is another, different side to this problem. Japan is one of America's best customers. In 1955 her purchases totaled \$780 million, sales \$459 million. Most of the purchases are agricultural commodities, especially cotton, some of them coming from the states complaining about Japanese goods. In the fight over import quotas, this raises the issue of which American market is to be protected. It is as important to American farmers to sell to Japan as it is to the textile industry to keep out ruinous Japanese competition. The U.S. cotton textile industry has been ailing for years. Japanese imports are being made a whipping boy to cover distresses caused by man-made fibers.

Japan's problems in selling to the United States are only one of her difficulties. Her economy is always precarious. These realities can never be ignored: 90 million people live in an area of poor natural resources about the size of California. Only 15 per cent of the land is arable. Twenty per cent of the food and most industrial raw materials must be imported, especially iron ore, coking coal, petroleum and raw cotton. Foodstuffs and raw materials together account for 85 per cent of all imports. To buy these necessities Japan must sell its products. Yet exports are only 57 per cent of the 1934-36 volume. And these exceed imports in value only because they include the "invisible export" of foreign troop expenditures, principally American. In 1955 Japan's excess of receipts over expenditures totaled \$494 million. Without the \$556 million spent by foreign soldiers Japan would have been \$62 million in the red.

To overcome this situation Japan has devised a five-year plan ending in 1960 that would boost annual exports to \$2,660,000,000—66 per cent above 1954—and balance foreign trade without special procurements by foreign troops. Much of the expansion is planned for fields in which Japan has regained little of its prewar position. These include shipping, insurance and investments in foreign countries, principally Asia and Latin America. Japan is hoping to capture more of the foreign tourist dollar. These goals, calling for a 50 per cent expansion of imports and exports, might seem optimistic if it weren't for the tremen-

dous slack in Japan's economy. There is a wealth of technicians, uneconomic use of labor, and 10 million unemployed by Western standards. A suggestion of the increases possible can be found in the ease with which Japan steps up production when a soft spot is found in some market.

Kawasaki Dockyard at Kobe is a scene of bustling activity. Huge cranes glide over symmetrical, forming hulls of two giant tankers, one 38,700-dwt., the other 45,000-dwt. Workmen swarm over the rearing bulk-heads. Pounding of air hammers and stench of acetylene fills the air. Dazzling blue flashes of welding torches flare everywhere. At the nearby Kobe Steel Works the red hot billets slide, hissing and steaming, through the mill, gradually pressed and drawn into longer and longer segments until the finest wire rod in the nation comes slithering out like fire-wreathed bull-whips. In Osaka, endless miles of cotton fabrics at Kanegafuchi Spinning Co. roll through washing, bleaching, printing, dyeing, sanforizing, starching and pressing machines to emerge in graceful rolls of highest grade fabrics. And in Tokyo, the slow, intricate art of pouring optical glass, grinding it into lens and building one of the world's finest cameras goes on day after day at Nikon and other companies. These are only a few, representative components of Japan's giant production machine. Yet through all runs a tone of careful quality control and high standard.

There are many pitfalls between Japan and its goal of economic stability. Investment capital is scarce. There is no end in sight to the continuing population explosion now jamming a million more people a year into the teeming home islands.

By 1960 Japan hopes to complete projects providing sufficient new land to grow 5,100,000 cubic feet of new foodstuffs. But the process is expensive, involving the reclamation of coastal areas now under salt water. Japan is faced with the prospect of shifting emphasis from light to heavy industry because many Asian nations are now developing light industries of their own. In the years ahead Japan will be under pressure to turn to markets wherever she can find them, including Red China and other Communist nations. In the 1934-36 period her visible exports to North Asian countries—principally Mainland China but also Korea, Taiwan, the Ryukyus and others—totaled \$408 million, almost half the \$906 million average export total. Today, many Japanese still feel Red China is Japan's greatest potential market, but most economists doubt the \$28,547,000 in goods Japan sent there in 1955 will ever surpass \$100 million annually, even with relaxing of Free World restrictions. Japan will also have to sell more to and buy less from America, to wipe out the imbalance that has existed there since the war. Such expansion will have to be carried out with skilful marketing procedures and with more diversification of products than Japan used in the past. This would avoid undue impact on any particular segment of the U.S. economy.

An average industrial worker still makes less than \$56 a month; Japan must pay World War II reparations to total more than a billion dollars. Japan has been riding the crest of world-wide prosperity. When it ebbs, Japan's exports will be affected. It may then be up to nations of the Free World to decide what concessions they will make to keep this industrious, talented people in their camp.

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JAPANESE LANGUAGE AND ENGLISH

Japan is an island country in the Far East, remote from the countries where English is spoken as a mother tongue. And although after the war contacts with foreigners have become frequent, still the number of Japanese who are driven to the necessity of hearing or speaking English is very small. For instance, a university,

graduate, after going into society, does find it necessary to read English, but seldom has an opportunity of associating with foreigners. So if he has had lessons at school in speaking English, his English will soon get rusty, since no opportunity arises after his graduation to speak it. Thus the opinion gains ground that to drill the students in speaking and writing English at school is but a waste of energy and that we ought rather to encourage the reading of books instead.

The prevailing idea among the teachers of English and especially among university professors is that we teach and study English in order to elevate our culture. This idea is largely owing to the influence of the study of Chinese classics which has stimulated and informed our culture during a thousand years. Thus, the textbooks chosen are, most of them, of a literary nature, in style, often archaic. And though the first two years at the university are required to be spent in teaching English as a means of communication, little attention is paid to this actually and they come to savor, as it were, of the nature of the Department of English where English is taught exclusively to study English literature.

In Japan, unlike in other countries of Asia, all subjects of study at school and college are taught in Japanese. So students as a rule, unaware of the necessity of English, are not particularly keen to learn it. Of course there are some who like English, who take to it kindly, or who have hopes of going abroad some day, but their number is small. The large majority of students learn English simply because it is there in the curriculum or because—and this is the chief reason—English is required in the entrance examinations. Thus the task of the teacher is the thankless one of taking unwilling horses to the water and making them drink.

The great Japanologist, Basil Hall Chamberlain, pronounced Chinese script as used in Japan to be "the most complicated and uncertain system of writing under which poor humanity has ever groaned." It is also said that an old Jesuit missionary declared our system of writing to be "the invention of a conventicle of the demons to harass the

faithful." I wonder how it strikes modern Japanologists. In this connection I cannot but recall a talk I had with Jespersen. The great Danish scholar asked: "Why don't you abolish Chinese characters?" It was soon after Kemal Pasha succeeded in introducing the Roman alphabet in Turkey. My reply was: "It could not be done without bloodshed." The word escaped me.

Japan is the only civilized country in the world where this barbaric writing, with its complications, intricacies and absurdities is in everyday use. China stands in a better case. Things are much simpler there. Our misfortune is that we took over the script to write down a language which is entirely of a different stock. The result is that one sign has several readings, Chinese and Japanese. My English friend once cried out in despair: "In Japanese they spell Marjoribanks and pronounce it Cholmondeley."

So much for the script. As to the language itself, this is again a peculiar and difficult language, unique in its position. Korean, said to be the nearest relative, is far more remote than Sanskrit from English. It was Chamberlain who said that mastering Japanese required a brain which would master eight European languages. I think he meant Japanese language, or languages if he included Classical Japanese, plus Chinese writing. Anyhow the task of mastering Japanese remains herculean and every educated Japanese has spent years and years in overcoming the labor, but not successfully. I well remember Baron Yamakawa, once President of Tokyo University sighing: "Japan is perhaps the only country in the world where a President of a University cannot write a letter without consulting a dictionary."

Born and bred in such linguistic environment, it is but natural that the Japanese become a visual-type people rather than auditory-type, and in learning a foreign language fall into the habit of relying on the eye and not on the ear. This habit, fostered by Chinese studies, is deep-rooted and could not be done away with at once, a circumstance which every language teacher should bear in mind.

—Professor Sanki Tchikawa

ECONOMIC LETTER FROM TOKYO

Monetary Trends: Monetary trends during the fiscal first half (Apr.-Sept.) were slightly tight in general. This is believed to be due to the excess receipts over payments in the Treasury Accounts of Y43,700 million (as against the excess payments of Y111,600 million during the like period of the previous fiscal year) caused principally by the dip in excess outflow over receipts from the Foreign Exchange Fund Special Account reflecting the rise in import, as well as to the big rise in all bank loans of Y462,000 million during the fiscal first half (4.5 times the same period of the previous year). Bank of Japan note issues increased by Y24,800 million during the same fiscal first half (compared with the Y900 million-dip for the same period last year). Average issues in September totaled Y599,500 million or 10.7% over the same month of last year.

The above money and credit trends are seen to have close relationship to the rather fast tempo of economic growth propped by the recent rise in investments. As for the other economic indicators: the rise in money supply seemed to be about commensurate with the advance in production, trading and income; the international balance of payments has expanded its receipt and payment amounts and achieved a real balance despite the dip in the surplus

amount; and consumer prices have gone sideways notwithstanding the rather marked rise in wholesale prices. It should be pointed out however that future bank loan trends bear careful watching as certain factors such as the tightness in steel supply, freight capacity and electric power have begun to appear.

Foreign Exchange Accounts: The foreign exchange balance during the fiscal first half (Apr.-Sept.) showed a surplus of \$132 million (\$18 million-surplus when deferred payments are subtracted). Compared with the previous term (Oct. '55-Mar. '56) this represents a big dip as payments rose markedly based on the sharp commodity import-rise although both receipts and payments expanded on the whole. Export maintained a favorable monthly level of \$200 million, but the rising rate of 9% (over the previous term) was slightly below the respective rates of 14% and 11% for the previous two terms. Import rose heavily by 25% during the term reflecting raw materials inventory purchases to keep up with the fast production-rise, thereby exceeding the export amount. The balance with the dollar area was very favorable with a surplus of \$232 million, whereas the balance with the sterling area was conspicuously unfavorable with a deficit of \$81 million, reflecting in-

REPORTS FROM THE PHILIPPINES

Ramie Textiles, Inc., has been authorized to sell 5,600,000 shares of stock in the company at one peso per share in order to round out the capitalization of the firm to P7,000,000. The company, which will set up a plant to process ramie fiber in the Philippines, has on its board of directors Vicente Araneta, J. Antonio Araneta, Manuel Elizalde, Juan Villanueva, Pablo Silva, and Vicente Rufino.

A new move to increase the overseas shipping facilities of the Philippines was revealed by Jose Panganiban, manager of the government's National Development Company. NDC is negotiating with U.S. interests for purchase of bonds to finance the purchase of ships by the Philippines. Ships for the Philippines will be forthcoming as part of Japanese reparations.

The Goodyear Tire and Rubber Co. has been granted tax exemption for its tire recapping and retreading operations in its plants at Cebu, Davao and Iloilo. Russel De

creased import from that area. The September foreign exchange balance showed a \$19 million-surplus (\$15 million-surplus with deferred payments as usance subtracted). The previous two months had ended in deficits. The Sept. surplus was mostly due to improvement in the invisible balance while both export and import dipped \$25 million from the previous month.

Industrial Production: According to the Economic Planning Board industrial production somewhat declined in August, the index for the month falling to 218.9 (1934-36 av. = 100) from 219.3 for July, owing to a reduced output in mining as an effect of annual bon holidays as well as of typhoons. It may be noted that since February last production had kept rising each month in succession. Yet, even in August the manufacturing industries showed some gains, the index for all manufactures rising to the post-war high of 231.7 as against 231.2 for July.

Export Outlook: In order to cover a heavy rise in imports necessitated by expansion of economic scale and to keep international accounts well balanced, more efforts for increasing exports must need be made. According to a forecast made by the Ministry of International Trade and Industry export in fiscal 1956 is expected to reach \$2,460 million or 12.2% higher than in 1955, while in fiscal 1957 it will amount to no more than \$2,550 million or a gain of only 3.2%. This slackening rate of increase in export is explained by a tendency for slowing down lately in the shipments of iron and steel and heavy machinery other than ships, for which backlog of unfilled orders is still large, because of a strong domestic demand. In view of a rapid growth recently in the competitive power of heavy industrial products of West-European countries, there is a fear that markets for export might be lost one after another, should heavy industries continue depending too much upon home demand. There is rising among some Government officials an opinion against unlimited expansion of domestic demand.

Rice Crop: A deterioration in this year's rice crop since last estimate was to be expected, because of the damages wrought by typhoons and country-wide low temperature in the latter part of August. Still, according to the Ministry of Agriculture and Forestry's report on conditions as of September 15, there may be a harvest of 70,900,000 koku, which is 3,600,000 koku more than the average year, though 8,000,000 koku less than the biggest record established last year of 79,000,000 koku.

Young, Executive Vice President of Goodyear, was present in the Philippines for the inauguration of the new P12,000,000 Goodyear plant at Las Pinas, Rizal, on Oct. 6. W. G. Gulick and B. M. Costello, President and Vice President respectively of Goodrich International, attended on Oct. 20 the inauguration of the new Goodrich plant at Marikina.

Private business interests will have to take the lead in bringing economic prosperity to the Philippines, Sen. Jose P. Laurel, Philippine elder statesman, declared. He expressed doubts about the ability of the government to solve the economic problems of the country. The economy of the Philippines has now reached a point where it is able to support a modern Social Security system, the Secretary of Labor, Eleuterio Adevos, declared. He based the statement on the fact that profits in the Philippines are high, according to Central Bank studies. High profit rates in business are characteristic of newly developing countries like the Philippines—just as lower, though more stable, rates are customary in advanced countries.

Construction of a new pier at the Manila south harbour—Pier 15—is planned. The proposed pier will be exclusively for passenger liners. The site considered is at the end of Muelle de San Francisco, where the present United States Navy landing is located. Pier No. 5 at the South Harbor will shortly be reconstructed by the government at a cost of P5,000,000. The pier will be enlarged in order to solve the recurrent cargo congestion at the South Harbor. In reconstructing Pier 5, the International Cooperation Administration will provide the Philippine Government with steel piles.

The first of three additional Otter airplanes ordered by Philippine Air Lines for use in rural areas has arrived. The other two are expected by the end of December. Two Otters previously procured are now in service in Mindanao. Powered by a Pratt & Whitney Wasp engine, the Otter carries 10 to 14 passengers plus pilot, or 345 cu. ft. of cargo. It is adapted for operation from small airfields at low per-ton-mile cost, making it especially suitable for inter-island service. The maker of the planes, DeHaviland Aircraft of Canada, Ltd., is represented in the Philippines by Theo. H. Davies & Co., Far East Ltd.

An extensive deposit of highgrade iron ore—contained in a mountain with an elevation of 1,100 ft. and covering a ground area of about four square miles—has been located on Balabac Island, Palawan province. The area was discovered and is now covered by claims of the Balabac Mining Company, which was recently organized by a group of shipping men. Tests made on outcrops reportedly showed an average of 55% iron content. Final results may confirm the belief that Balabac Island contains one of the greatest iron ore reserves of the southern Philippines.

Samar Mining Co. production of concentrates by the Masara mine during August totalled 152.12 dry short tons of copper; 8.40 tons of lead; and 166.91 tons of zinc. These concentrates have a marketable metal content of 60,997.29 lbs. of copper; 7,749.45 lbs. of lead; 163,923.0 lbs. of zinc; 1,020.43 oz. of gold; and 8,384.38 oz. of silver. In addition, 274.39 oz. of gold and 2,120.68 oz. of silver were recovered from the precipitates of the cyanidation plant.

A P2,000,000 Associated Pulp and Paper Co. has been organized by the Fernandez interests. A P6,000,000 Lingo Industrial Corp. has been organized to set up a textile factory to manufacture yarns, thread, cord and cotton products. The new Philippine Food Industries, Inc., has

started to manufacture cocoa and cocoa butter. New capital investments in the Philippines during September totalled P27,200,000. Figure for the previous month was P34,000,000.

The Manila Electric Co. is considering two alternative plans for the construction of an atom-powered generating plant in the Philippines and will push the project if the Philippines concludes an agreement with the U.S. for co-operation on atom plants. This assurance was given to Pres. Magsaysay by A. F. Tegen, president of General Public Utilities of New York, parent company of MERALCO. The Philippines plans immediate negotiations with the U.S. for an agreement on nuclear cooperation. Construction of the atomic generator in the Philippines involves a number of still unresolved problems, including the cost of atomic fuel and the cost of insurance.

Merchants are complaining that money in the Philippines is unusually "tight" as the Christmas season approaches, with sales not quite up to the level of last year and importers having difficulty in moving their goods in some cases. This is puzzling to some observers in view of the fact that the money supply in the country at the end of July was over P1,419 million, as compared to P1,416 million a month before and P1,216 million a year earlier. In 1951, when price levels were higher and the dangers of inflation were regarded as more acute, the money supply was only P1,160 million. There have been suggestions that the increased supply of money at present may be concentrated in relatively few hands or that buyer resistance has simply increased.

Money supply and the currency issue of the Central Bank have been increasing over the past several years, but the velocity of circulation does not appear to be as strong. Currency issue, which on the 26th of October was above P730 million, stood at something over P724 million at the end of July this year, which was the highest since 1950, when it was P733 million. At the end of 1955 the figure was P723 million and at the end of 1954, P719 million. Total currency in circulation at the end of last July, according to bank figures, was P669 million. At the end of July in 1955 the figure was P670 million and at the end of July in 1954, P676 million. Although notes issued increased to P638 million last July—as against P636 million in 1955 and P634 million in 1954—the "inactive cash" (consisting of cash in securities stabilization fund, cash in other banks' vaults and in the national treasury vaults) amounted to P54 million in July of this year, as against P52 million in 1955 and P43 million in 1954.

San Miguel Brewery has submitted to the government a proposal under which the company will begin the manu-

facture of glass envelopes for incandescent bulbs, using local raw materials. San Miguel has had the project under study for years. Very little new equipment will be needed to manufacture the envelopes in the SMB glass factory where the firm's bottles are made. If the plan is approved by the government, production could begin early next year. The envelopes manufactured would be used by the Philippine Electrical Manufacturing Co. and would also be available to the other two Philippine bulb manufacturers, Acme and United.

General Electric (Philippines) has licensed the local firm of Del Rosario Bros. to manufacture GE air conditioning and refrigeration equipment. Del Rosario will manufacture some components and the remainder will be brought from the U.S. by GE's Manila office. The plant that Del Rosario will use for both manufacture and assembly of the completed products was purchased from International Harvester when IH sold out its refrigerator line.

The Standard Vacuum Oil Co. will start drilling operations in the Cagayan Valley early next year. The company's drilling rig will be arriving about the end of December or early in January, and drilling is expected to begin sometime in February. In preparation for the operation STANVAC has spent about a million pesos, in addition to another million laid out for geological exploration. The company's first hole, to be known as Faire No. 1, will be drilled 18 miles northwest of Tuguegarao and about 62 miles from Philippine Oil Development's first hole, Tumaquini No. 1. Philippine Oil Development expects to start drilling its second hole sometime in January.

The Northern Luzon Oil Mining Co. has applied to the Bureau of Mines for a concession to develop and exploit its properties in the sub-province of Bontoc in Mountain Province. Of the 27 oil seepages in 14 provinces which have been reported by the survey teams of the Bureau of Mines, 5 have been verified on the Bontoc properties of the Northern Luzon Oil Mining Co. The area was recommended for exploitation after a special survey conducted by a petroleum engineer of the Bureau of Mines and by a geologist of the University of the Philippines.

Compania de Celulosa de Filipinas, a Tabacalera subsidiary, has begun expansion plans designed to increase the company's production of paper from bagasse from the present volume of 6,000 tons yearly to an annual 10,000 tons by 1958. Using 95% local raw materials, the company has made progress in increasing its output and lowering its costs. Confidence of local investors in the future of the company and the soundness of its plans is reflected in the fact that the firm's stock has been rising on the Manila Stock Exchange.

HONGKONG NOTES AND REPORTS

Real Estate Business

Investment companies and real estate speculators are now concentrating on the sale of flats which they are constructing or proposing to build instead of hunting after old buildings for new development. Increased land value has forced contractors to build taller buildings in order to make the cost of land relatively lower for each flat. Taller buildings, however, require more capital. Investment companies therefore start selling the flats even before construction begins so that they can have enough cash for their projects. Buyers are required to advance 20% to 50% of the total amount as down-payment for the purchase. About 10 such projects have been advertised in the local

Chinese press but only three of these are under construction. The promotor must sell a sufficient number of flats to enable him to start the project, and the completion of the work depends upon his success in selling at least 70% of all flats. Work on one building is now suspended on account of the shortage of funds because there are not enough buyers. Several banks have been approached by this investment company for loans against mortgage of the partially finished structure but bankers are reluctant to accept such mortgage. The firm will probably have to sell out its business to a bigger enterprise.

This recent circumstance has already forced many mushroom construction companies into bankruptcy and

today there are only a handful of larger companies in the field. Even these big firms undertake more projects than they could possibly handle and therefore depend also on the advance-sale of flats for funds to complete the building. The difficulty in the sale of new flats is reflected by the terms offered by these companies. Instalments can now be stretched over 24 months (formerly 12 months) with monthly payments of \$554 for a \$26,500 flat (floor space about 120 square feet) provided the buyer advances 50% of the total amount as down-payment. The emphasis is on the 50% down-payment but the investment company attracts buyers with the low monthly instalment of \$554. However, there are still not enough buyers!

The majority of the instalment buyers were families of overseas Chinese. They bought it either for their own use or as an investment. Many displaced tenants of old buildings who had received compensations used the money for down-payment of new flats. Many servant groups pooled their savings and monthly wages to buy a house as an investment. Without the facilities of instalment payments these buyers may not be able to procure a flat; nevertheless, the number of such buyers is much smaller than the number of flats now offered for sale! Those who can afford to buy a flat without resorting to instalment payments usually prefer to consider the purchase after the building is completed. Many buyers find that the materials used are not up to standard after the flats are ready for occupation. A wise buyer therefore refrains from committing himself to such a purchase and chooses to save the money first and enjoy the 10% discount for cash payments when he buys a flat which satisfies him.

Hongkong Housing Authority

The Hongkong Housing Authority announced that the Java Road estate in North Point will be completed and ready for occupation in July next year. The estate will contain 1,955 flats with floor spaces varying from 300 to 600 square feet. Rents have not yet been fixed but will probably vary from \$60 to \$120 a month exclusive of rates and water charges. Rates will be assessed on a figure approximating to the market value of the accommodation and together with water charges will amount to about \$24 to \$48 a month. Applications are now accepted from persons having following qualifications: (1) age must be 21 years or over; (2) residence in HK must be continuous since July 1, 1948; (3) family income must be between \$300 and \$900 a month. A permanent register of applicants will be kept by the Housing Authority. Prospective tenants will be visited by specially trained staff in order that their living conditions may be verified and documentary evidence examined. Measures are being taken to prevent irregular and corrupt practices. Successful applicants will be allocated accommodation for the sole use of the persons named in the application and subsequent tenancy agreement; no subletting will be allowed. Applicants who are unsuccessful in the first instance will be reconsidered for future estates. The Authority's second estate at Cadogan Street in Kennedy Town (640 flats) will be completed in December next year. The third project is still in the planning stage; it will be built at So Uk, Shamshuipo.

Public Works Projects

Government will build a 3-storey reinforced concrete market at Kansu Street in Yaumati. Demolition of the existing market on the site will begin in December and the new building will be completed before end of next year. Barrack type accommodation for bachelors and small flats for married families will be provided on the second floor for staff of the Urban Services Department. In the New

Territories, Govt plans to build permanent public piers at Tap Mun and Kat O. Preliminary site investigations and sounding surveys have been completed and construction work will begin soon. Both piers will have a minimum depth of 10' of water at all tides. At present the HK and Yaumati Ferry Company is running a ferry service to Tap Mun.

September Rice Imports

Imports of edible rice in September totalled 24,494 tons making up a total of 218,314 tons for the period January-September. 18,771 tons (76.6%) came from Thailand, 4,150 tons (17%) from China and 1,573 tons (6.4%) from Burma. Imports during the 9-month period were: 136,551 tons (62.6%) from Thailand, 39,925 tons (18.3%) from China, 31,968 tons (14.6%) from Burma, 9,620 tons (4.4%) from Pakistan and 250 tons (0.1%) from other countries. Sales during September totalled 22,193 tons averaging 4,439 tons every week as compared with 4,748 tons for the previous month and 4,713 tons in September last year. Bangkok fob prices registered a steady decline during the month; whole rice down by 40s-55s per ton, A1 broken fell by 20s while C1 broken recorded no change. Prices on the local market also dropped but not as steep as fob prices.

Frozen Meat and Coal Imports

Local consumption of frozen meat in September totalled 616 tons, a record figure. Imports totalled 573 tons. The consumption was high in September due to short supply of fresh meat; adequate stocks of frozen meat however were maintained throughout the month. Imports of coal totalled 22,207 tons of which 18,701 tons came from China, 2,022 tons from Japan, 1,339 tons from North Vietnam and 145 tons from Taiwan.

Automobiles for China

Peking bought 51 saloon cars, all of British manufacture, from local dealers. The cars were driven across the border for delivery to authorities there.

Squatter Fires

Two squatter fires rendered 2,500 people homeless on the night of October 22. The first fire destroyed 35 huts at the Tai Hang Sai squatter area at Kowloon Tsia. About 41 hours later, another fire consumed 150 huts at Fa Hui Village in the Shamshuipo district. The victims were registered by Government and provided with free meals by the Social Welfare Office at the Shamshuipo Welfare Centre.

Trade Fairs

The newly-elected Chairman of the Chinese General Chamber of Commerce, Mr. Ko Cheuk-hung, has proposed to set up a special committee to consider the holding of an international trade fair in Hongkong. He reported that many trade commissioners of various countries and leading local businessmen had agreed to support this idea. Mr. Ko is confident that an exhibition in this Colony of manufactured products of different countries will be a great contribution towards the economic prosperity of HK; the exhibition will also induce visitors from many countries. To promote exports, the Chamber intends to invite local merchants to send trade delegations to different countries. Mr. Ko also asked for closer cooperation between local industrial and commercial circles to bring about 'a new epoch of economic prosperity in the Colony.' The importance of trade promotion work is also stressed by the Acting Director of Commerce and Industry, Mr. J. J. Cowperthwaite. He pointed out that many visitors to the Hongkong stand at the

HONGKONG COMPANY MEETINGS

WHEELOCK MARDEN AND CO. LTD.

The net profit earned by Wheelock Marden and Company, Limited, during the year ended March 31, 1956, was \$7,809,481. Shareholders approved the Directors' recommendations to pay a dividend of 50 cents and a bonus of 25 cents a share on four million shares and to transfer \$54 million to General Reserve. The Chairman, Mr. G. E. Marden, said inter alia: The freight markets of the world have continued to improve, shipping values are high with every appearance of continued strength, and the difficulties over Suez have contributed to this appearance. This has necessitated the increase in capital. It would have been quite unreasonable to expect that our Bankers, who have been most helpful and co-operative, should, under the circumstances affecting the capital markets of the whole world, continue to increase their advances to us. The size of our capital requirements can be estimated from the present day value of a wartime British-built oilburning vessel of around 10,000 tons deadweight which exceeds £500,000 and it is this type of vessel and motorships of somewhat higher value which are currently in demand. Whilst it is true that the credit squeeze in the UK continues adversely to affect local money rates and makes borrowing difficult, it would have been prudent, whatever the conditions, to have sought more capital for the increasing tempo of our financing business. Your board is satisfied that the additional resources which the new issue affords to us can be profitably utilized.

Insurance: Dominion has had another successful year and maintained its distribution at 74%. The negotiations referred to last year in respect of this Company have taken a new direction which is being considered. B. D. Cooke & Partners Ltd. and its subsidiaries and associates engaged in underwriting activities under Mr. B. D. Cooke, have continued their programme of expansion and we have provided it with further capital since the end of our year. The insurance brokerage business of Eldridge & Co. Ltd. has operated satisfactorily.

Shipping: Eastern Asia Navigation Co., Ltd. has increased its dividend from eight to ten cents.

Shipbuilding: Whites Shipyard (Southampton) Ltd. has another successful year and as its participation in the Defence programme is drawing to a logical conclusion, its energetic management is seeking work to fill the gap.

Merchandising: Shewan Tomes has made progress under the new arrangements foreshadowed last year but more remains to be done. Cornes & Co., Ltd. continue satisfactorily their general activities in Japan.

Finance: Commercial Investment Co. Ltd. has a successful year and is now firmly established in the forefront of their business.

Aviation: Far East Aviation Ltd. and Far East Flying Training School are operating as fully as circumstances permit but are unlikely to resume business on a reasonable scale until the conflict of interests in the Far East comes closer to being resolved.

recent Frankfurt Fair had remarked on the quality of the products displayed and expressed surprise at the wide range of goods manufactured. In addition to the direct orders placed with the representatives of individual firms, 262 enquiries and orders were recorded on the stand and have since been circulated to the Chambers of Commerce, the Chinese Manufacturers' Union and the HK Exporters' Association. Some of the enquiries were from firms wishing to find a market in the Colony for European products but the majority were requests for HK products.

Warehousing & Transportation: We have abandoned our interests in China, handing over our assets and liabilities to a Government-sponsored Corporation. It might have been possible to have done so sooner but our Towage and Lighterage business was established in Shanghai more than a century ago whilst the considerable development of our prewar years had built up a business with such substantial assets that it was difficult to make the final decision. We had been fortunate for some years inasmuch as the demands made upon us were small but during the last year they had increased in size and tempo and rather than yield to them and embark upon a programme of heavy remittances it was decided to submit to the pressure. After some months of negotiations and after all our property had been handed over as an offset to our "liabilities" our Manager in Shanghai, Mr. J. S. Flood, and his wife received their Exit Permits and arrived in Hongkong in June. Whatever the future of trade with China may be—and we are ourselves not at present interested in that activity—the days of trading in China are over for concerns such as our own.

Matters of interest concerning our associated companies include the raising of capital by the Textile Corporation of Hongkong as a result of which our own investment in the concern has been considerably increased. Leigh Manufacturing (Holdings) Ltd. has changed its name to Boardman Marden, Ltd. and has continued to expand. Allied Investors has again operated on a subdued note, there having been no change in the position regarding their holdings in Hongkong & China Gas Co., Ltd. Together with our own holdings they constitute 55% of the Company's issued capital. We are considering a course of action designed to overcome the unfortunate impasse which is having its effect upon the development of the Gas Company itself as well as upon the interests of its shareholders.

Current Liabilities and provisions show substantial increases in bank overdraft and amounts due to associated companies, both of which have decreased significantly since the end of our year. Sundry Creditors and Provision for Contingencies show a reduction approaching two millions after having been augmented by a further two million from Profit and Loss Account. It includes part of the profit on the sale of ships which has been retained until the loans and advances in connection therewith have been settled. The Profit and Loss Account shows an increase in the Trading Profits item and the profit of \$5,200,000 on the sale of ships, a substantial part of which represents profit now released in respect of transactions effected in previous years. The increase in management and general expenses is mainly accounted for by an increase in commission whilst Bank interest is naturally higher. The sum of two million dollars has been provided for contingencies including an additional amount in respect of the loss on timber operations in Sarawak and of operations in Singapore.

Two resolutions to increase the authorised Capital and to capitalise part of the General Reserve were unanimously adopted at an extraordinary general meeting of shareholders. The resolutions were: (1) That the Authorised Capital be increased from HK\$20,000,000 divided into 4,000,000 shares of HK\$5 each to HK\$40,000,000 by the creation of 4,000,000 additional shares of HK\$5 each. (2) That the sum of HK\$2,000,000 forming part of the General Reserve be capitalised and the Directors be authorised to apply such sum in payment in full for 400,000 shares of HK\$5 each and that such shares credited as fully paid be allotted to the persons registered on October 31, 1956 as the holders of the 4,000,000 issued shares of the company in the proportion of one such new share for every ten complete shares held on that date, the shares so allotted to be treated for all purposes as an increase of the nominal amount of capital held by each shareholder, and not as income, and to rank for dividend from October 1, 1956.

YANGTZE FINANCE CO. LTD.

The Company announced a dividend of 14% and a profit of HK\$803,826. Chairman G. E. Marden stated: Income from interest and dividends has again increased but there was less activity in the trading portfolio. Interest charged is higher and, following the settlement of the basis of assessment, income tax amounting to \$20,746 in respect of the last two years has been charged while a provision of \$60,000 has been made in respect of the current trading year. As a result there is a decrease in the balance carried to Appropriation Account. The dividend maintained at 14 per cent will require some \$4,000 more than last year due to the issue of additional capital against the acquisition of further shares in our subsidiary, The Shanghai Loan & Investment Co. Ltd. We now hold over 75 per cent of that company's capital and are continuing to accept shares as they become available. The balance carried to the balance sheet will be slightly decreased.

Last year I mentioned that the Investment Realisation Account showed a credit figure for the first time since the accounts were established on the Investment Trust principle. The figure now shows a substantial advance to \$650,000. The increase reflects the reduction in the value of quoted investments from \$9,688,460 to \$7,774,201. The market value in respect of these investments was approximately \$470,000 in excess of their book value and since the close of the year has appreciated still further. There is an increase of \$86,072 in the portfolio of unquoted investments as a result of further acquisitions during the year. At the close of business on October 25, the company's net worth after deducting all liabilities was \$8,944,337 which represented a statistical value of \$7.70 per share ex-dividend.

SHANGHAI LOAN AND INVESTMENT CO. LTD.

The Company declared a dividend of 20 cents per share on 524,992 shares. Profit for the year amounted to HK\$327,449, leaving a sum of \$222,541 to be carried forward. Mr. G. E. Marden (Chairman) said: The profit for the year ended March 31, 1956, shows an increase of some \$84,000 over that for the previous year, due largely to the increased profit on sale of investments; income from dividend and interest is \$20,000 higher. The dividend as recommended is maintained at 20 cents and this will enable the amount

carried forward to be increased by approximately \$72,000. There is a reduction of nearly \$300,000 in the investment portfolio, the results of which are reflected in the increased profit on sale of investments already referred to, and the market value is some \$8,000 in excess of the book figure. Since the close of the year there has been a small appreciation in the market value of the investments.

DOUGLAS STEAMSHIP CO. LTD

A dividend of \$7.50 per share was declared. The company's profit for the year ended December 31, 1955, was \$482,274. Mr. R. A. Salenger, representative of Messrs. Douglas Lapraik and Company, presided over the meeting owing to the absence of Chairman J. R. Mullion. The Chairman's statement reported in part: Factors contributing to the maintenance of freight markets at a satisfactory level are the assurance of a sustained North Atlantic coal export trade and the substantial weight of prospective grain traffic which covers like the coal and ore trades and almost universal field. Ship values may fluctuate but, probably with narrow limits, they are almost bound to be influenced by the stupendous increase in the cost of building as well as by the fact that it is now virtually impossible to contract for new cargo vessels giving delivery earlier than 1960 because a large proportion of the shipbuilding capacity of the world is devoted to the insatiable demand for tanker tonnage.

The Company's fixed assets stand at \$3,423,200. The increase during the year follows the purchase of the s.s. Inchearn. Investments, after deduction of the reserve of \$890,517, appear in the balance sheet at \$4,403,404 while their market value at 31st December 1955, is \$9,249,350. Last year mention was made in the Chairman's statement that the company's liquid assets would be applied towards the purchase of the s.s. Inchearn. However, it was found more practical and beneficial that the purchase of both our vessels be financed by bank overdraft and the company therefore continued to hold all the investments and receive dividends therefrom. Accordingly the balance sheet shows an overdraft of \$1,643,701 occasioned by the purchase of the s.s. Inchearn and the payment of the deposit on the purchase of the m.v. Queen Eleanor. The profit earned by the s.s. Inchearn has little effect on the company's results for the year so that the company's revenue has again almost wholly arisen from dividends on investments amounting to \$503,381.

FINANCE & COMMERCE

HONGKONG EXCHANGE MARKETS

November 5-10, 1956

Nov.	U.S.\$		Notes	
	T.T. High	T.T. Low	Notes High	Notes Low
5	\$628½	625½	628½	624½
6	628½	627	627½	625½
7	638	628½	630½	626½
8	638	632	630	627½
9	641	638	638	635½
10	638	637½	634½	632½

D.D. rate: High 639 Low 623.

Trading totals: T.T. US\$4,490,000; Notes cash \$870,000, forward \$3,640,000; D.D. \$560,000. The market was bullish on heavy drops of the cross rate. Unsettled conditions in Egypt

continued to depress the Pound Sterling to new low of US\$2.50 per Pound. In the T.T. sector, business was very active. In the Notes market, speculators operated both ways, some liquidated while others increased their overbought positions. Demand from shippers was very heavy because the difference of three to four points between notes and T.T. yielded good profit. Interest for change over favoured sellers and aggregated HK\$8.80 per US\$1,000. Positions taken by speculators increased and averaged US\$5½ million per day. In the D.D. sector, the market was also active.

Yen: The forward market was dull with interest fixed at HK\$6.54 per Yen 100,000 in favour of buyers. Cash quotations were HK\$1,510—1,500, per Yen 100,000.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK\$: Philippines 1.755—1.735, Japan 0.0149—0.014725, Malaya 1.875, Vietnam 0.05714—0.0555, Thailand 0.284—0.2832. Sales: Pesos 420,000, Yen 140 million, Malayan \$410,000, Piastre 17 million, and Baht 7½ million. The market continued active and rates steady.

Agreed Merchant T.T. rates: Selling and buying rates per foreign currency in HK\$: England 16.202—16.10, Australia 13.016—12.757, New Zealand 16.202—15.867, United States 5.839—5.755, Canada 6.0377—5.9479, India 1.216—1.205, Pakistan 1.218—1.204, Ceylon 1.219—1.207, Burma 1.216—1.205, Malaya 1.889—1.871. Selling rates per foreign currency unit in HK\$: South Africa 16.236, Switzerland

1.3322, Belgium 0.11696, West Germany 1.3913.

Chinese Exchange: People's Yuan notes quoted HK\$1.45 per Yuan. Taiwan Dollar notes quoted HK\$164—160 per thousand, and remittances 163—161.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 16.22—16.07, Scotland 14.00, Ireland 13.50, Australia 12.65—12.50, New Zealand 15.00—14.88, Egypt 11.00, East Africa 15.25, West Africa 12.50, South Africa 16.25—16.22, Jamaica 13.50, Fiji 10.00, India 1.185—1.15, Pakistan 0.89—0.85, Ceylon 0.95, Burma 0.48, Malaya 1.845—1.842, Canada 6.55—6.39, Cuba 4.80, Philippines 1.825—1.81, Switzerland 1.89, West Germany 1.39, Italy 0.0095, Belgium 0.105, Sweden 1.00, Norway 0.70, Denmark 0.77, Netherlands 1.43, France 0.0152—0.0151, Vietnam 0.0565—0.053, Laos 0.064—0.061, Cambodia 0.084—0.0795, North Borneo 1.50, Indonesia 0.184—0.181, Thailand 0.274—0.2725, Macau 1.00—0.998.

GOLD MARKET

Nov.	High .945	Low .945	Macau
5	278½	276½	
6	278½	274½	Low 285
7	279½	275	
8	278½	276½	
9	283½	280½	290½ High
10	279½	278½	

The opening and closing prices were 278½ and 279½, and the highest and lowest 283½ and 274½. The market was strong with wide fluctuations. Speculative activities were not as strong as in US\$ note market. Interest favoured sellers and aggregated HK\$2.10 per 10 taels of .945 fine; stock increased and the interest turned normal again. Traders averaged 9,500 taels per day and amounted to 57,000 taels for the week, in which 28,310 taels were delivered (8,110 taels listed and 20,200 taels arranged). Imports were all from Macau and amounted to 22,000 taels. 59,200 fine ounces reached Macau during the week. Exports totalled 11,500 taels (7,000 to Singapore, 3,500 to Indonesia, and 1,000 to Rangoon). Differences paid for local and Macau .99 fine were HK\$15.00—14.70 and 13.00—12.50 respectively per tael of .945 fine. Cross rates were US\$37.97—37.95 per fine ounce; 64,000 fine ounces were concluded at US\$37.92 C.I.F. Macau. US double eagle old and new gold coins quoted at HK\$287—284 and 240—235 respectively per coin and Mexican gold coins at HK\$298—292 per coin.

Silver Market: 1,000 taels of bar silver were traded at HK\$6.15—6.12 per tael; 800 dollar coins at HK\$3.96—3.93 per coin; 500 twenty-cent coins at HK\$3.05—3.03 per five coins. Exporters were buying on higher world prices, but the market was not active.

HONGKONG SHARE MARKET

November 5-9, 1956

The local stock exchange recovered with the news of ceasefire in Egypt during the first half week. Prices registered slow but steady improvements and the daily turnover averaged \$1 million during the mid-week. Recoveries, however, were hindered by heavy profit-taking. Towards end of the week, trading slowed down again and prices eased on account of the uncertain political situation in the Middle East. Liquidation by speculators, who rushed to the buoyant gold and US dollar markets, depressed Electric, Lights, Trams and HK Banks to new low. Closing rates for most shares, however, were steady; some were still better than those for the previous week. Wharves retained the high of the previous week at 92; buyers tried to force it down to 88 but there was no selling response. Investments and Cottons were dull.

DIVIDEND

The China Light & Power Co. Ltd., announced a Final Dividend of 80 cents. per share for the old shares and pro rata for the 1949 Issue.

HONGKONG STOCK EXCHANGE IN OCTOBER

Announcement by Wheelock Marden & Co., Ltd., of a proposed Capital Bonus in addition to the issue of a further 1,000,000 shares at par, resulted in large parcels of shares changing hands and the turnover on Friday, 5th October, was the highest for one day's trading in 1956. Rioting broke out on the 10th October, and suspension of the cross-harbour ferry services on 12th October prevented members resident on the mainland (Kowloon) from attending the half day session. In consequence the 12th October was declared a non-trading day and no quotations were issued for that day. The riots had little effect on the share market, and prices showed no signs of breaking upon resumption of trading.

Shares	Nov. 2	Highest	Last Week's Rates	Closing	Ups and Downs
			Lowest		
HK Bank	1615	1615	1605 s	1605 s	—\$10
Union Ins.	980 s	990 b	985	XD 975 b	+\$10
Wheelock	6.65	6.80	6.65	6.70 s	+\$5¢
HK Wharf	90	92	88 b	90 b	steady
HK Dock	42.75	44.25	42.75	44 s	+\$1.25
Provident	13.10	13.70 s	13.40	13.70 s	+\$60¢
Land	61	63	61.50	61.50	+\$50¢
Realty	1.325	1.375	1.325	1.325	steady
Hotel	14.50	15.10	14.40	14.60	+10¢
Trams	22.90	23	22.70	22.70	—20¢
Star Ferry	142 n	140	139 b	142 n	steady
Yau-mat	102	104	102	102	steady
Light	23.70	24	23.30	23.40	—30¢
Light (1949)	22.90	23.40	23 n	23 n	+10¢
Electric	30.25	31.50	30	30	—25¢
Telephone (o)	23.70	24.50	23.80	23.80	+10¢
Telephone (n)	22.60	23.40	22.80	22.80	+20¢
Cement	36.75	38	37	37.25	+50¢
Dairy Farm	14.30	14.90	14.30	14.30	steady
Watson	12.70	13.80	12.90	13.20	+50¢
Yangtze	6.05 n	6 s	6 s	6 s	dull
Allied Invest.	4.90	5 s	4.90 b	5 s	steady
HK & FE Invest.	10.40 n	10.40 n	10.40 n	10.40 n	dull
Amal. Rubber	1.65	1.65	XD 1.40 b	XD 1.45	steady
Textile	4.10	4.10	4 b	4.10 n	steady
Nanyang	7.50 s	7.50 s	7.40	7.50 s	steady

Monday: In a day of moderate trading, some counters registered fractional gains. The turnover amounted to \$770,000. **Tuesday:** The market ruled steady with prices making further advances. The turnover improved to \$1,350,000. **Wednesday:** Sentiment improved on news of the ceasefire orders in the Middle East; prices made fair advances at a wide front. The turnover for half day amounted to \$1,030,000. **Thursday:** The market turned dull and price movements were few and small where business was reported. The turnover amounted to \$960,000. **Friday:** There was a general marking down of prices due to the uncertain political situation. The turnover amounted to \$640,000.

At close of business, the tone of the market was quiet.

Banks & Insurances: Enquiries for Hongkong Bank shares continued but buyers were reluctant to increase their bids. A fair number of Bank of East Asia were dealt in. Unions were in demand at \$1,000 and shares changed hands from that price to \$1,010. **Investment Companies:** More interest was evinced in Allied and Yangtses and a fair number of shares were dealt in. **Shipping:** Wheelocks were dealt in in large quantities immediately following announcement of a Capital Bonus and New Issue, but the demand slackened later. Hongkong & Far Easterns were neglected. **Docks &**

Wharves: Kowloon Wharf shares changed hands at slightly increased prices, while Hongkong Docks were in demand and buyers were compelled to increase their bids. There was light scale trading in China Providents.

Lands & Hotels: Hongkong Hotels recorded moderate trading while Hongkong Lands continued in demand. The demand for Humphreys and Realties was not insistent, and only a moderate quantity of shares dealt in.

Public Utilities: With the exception of Hongkong Electric and Telephones, demand for shares in this group was not maintained, particularly so for Hongkong Trams.

Industrials: Cements and Metal Industries were in demand but other shares in this section was neglected.

Stores: Watsons again led in this group followed by Dairy Farms. Transactions in Sinceres were larger than usual.

Miscellaneous: Business reported was negligible.

Cottons: A little more interest was shown in this section, particularly in Nanyang Cottons.

Rubbers: More interest was evinced in this group with Amalgamated and Rubber Trusts in the lead, the price of Raw Rubber influencing rates.

Dividend and other announcements were made by Yangtze Finance Co., Ltd., Douglas Steamship Co., Ltd., Eastern Asia Navigation Co., Ltd., Wheelock Marden & Co., Ltd. and Hongkong Realty & Trust Co., Ltd.

Business during the month: \$17,227,662. Business in 1955: \$333,189,500. Business during January-October 1956: \$181,389,775. Business in October 1955: \$17,111,109.

Business During October

	Qty. of Shares
H.K. Govt. Loan	
3½% „ (1934 & 1940)	\$6,000
3½% „ (1948)	\$9,000
H.K. Bank	416
Bank of East Asia	286
Lombard Insurance	190
Union Insurance	198
Allied Investors	28,450
Yangtze	23,420
Union Waterboats (O)	400
Asia Navigation	1,000
Wheelock Marden	405,850
Wharf Co.	1,289
C. Providents	10,924
H.K. Docks	15,241
H.K. & S. Hotels	50,300
H.K. Lands	21,486
Humphreys	4,000
Realty	30,000
H.K. Trams	19,800
Watsons	23,744
Star Ferry	200
Yau-mai Ferry	3,317
China Lights (F. Pd.)	53,862
„ (F. Pd. 1949 Issue)	7,420
H.K. Electric	64,863
Macao Electric	1,245
Telephone (O)	32,824
„ (N)	16,198
Caldbeck (Ord.)	144
Cements	36,901
Ropes	6,024
Metal Industries	15,900
Dairy Farms	17,982
Lane Crawfords	300
Sincere	2,793
China Emporium	460
Sun Co.	1,102
Vibro Piling	250
Textiles	9,000
Nanyang Mill	46,550

Rubber

	Qty. of Shares
Amalgamated Rubber	366,502
Ayer Tawah	1,000
Java-Consolidated	2,854
Rubber Trust	51,876
S'hai Kelantan	15,000

SINGAPORE SHARE
MARKET

The fighting in the Middle East was responsible for a slight set-back in Tin shares and, to a smaller extent, in Industrials. Selective interest was maintained in Rubber shares with further price rises recorded. A gradual falling off in activity, the curfew imposed earlier in the week and Thursday's Deepavali holiday resulted in a considerable reduction in the total volume of business written.

There was no absence of bargain hunters waiting to snap up leading Industrials on any price falls. Fraser & Neave after exchanges at \$2.02 and \$2.03 closed with wide demand at the latter price. Malayan Breweries remained unchanged with small business at \$3 and buyers over. Metal Box had takers at \$1.72½ and Malayan Cement improved to \$1.75 buyers. Sime Darby, on falling to \$2 met buying resistance and Gammons after a sharp rise to \$2.17½ closed at \$2.10.

Again Kuchai had a large turnover from \$2.40 to \$2.50 but closed \$2.42½. Johan Tin rose sharply to \$1.60 and Sungei Way at \$3.90 were 5 cents below best. Taiping Consol. were taken to \$1.87½ and Rantau were in favour up to \$1.70.

Austral Amal. after touching 19/10½ had sellers at 19/7½, Kuala Kampar after business at 40/- reacted to 39/6 and Lower Perak failed to hold a rise of 6d to 17/7½, closing sellers at 17/6. In demand were Kampong Kamunting at 8/9 and Kramat Tin at 9/9.

There was only small business but wide enquiry for Malayan Tin at 13/6. Kinta Kellas were wanted at 7/10½ and Kamuntings at 10/7½. Sungei Besi were taken from London at 11/6½ including stamp.

Bangawan, Malay Rubber Planters, Port Dickson Lukut and Pahang Para were taken from London. Locally, Batu Lintang were in demand at \$1.90 (cum the 20% final), Glenealy at \$1.70, Allenby at 95 cts. and Jeram Kuantan at \$2.46, Benta were better at \$1.22, Jimah at \$1.22½ ex dividend and Mentakab at \$1.35 ex the 50 cts. capital return. Tapah had a considerable turnover at \$3 whilst Ayer Panas alternated hot and cold between \$1.62½ and \$1.52½ cum the 7½% interim.

Loan turnover was negligible.

Australia supplied Northern Hercules (A. 11/- paid up) at A1/6 and accepted Peko at A9/8. Oil Search ex the one for four issue at A5/- fell off to All/-. Those registered on the 31st October are entitled to the new shares and A1/- is payable before the 31st January and two Calls of A2/- are expected to be made in April and June 1957.

Business done as at 27th October to 2nd
November:

Industrials. Fraser & Neave Ords. \$2.02 & \$2.03, Gammons \$2.07½ to \$2.17 to \$2.10, Hammer & Co. \$3.17 c.e.i. & \$1.55 x.c.r., Hongkong Bank (Col.) \$860.00, Hume Industries A.5/- shares A.5/7½, Wm. Jacks \$2.90, Jackson & Co. \$1.35, Malayan Breweries \$3.00, Malayan Cement \$1.72 & \$1.74, Metal Box \$1.71 & \$1.72½, Sime Darby \$2.04 to \$2.00, Traders \$26.00 c.d. & \$25.25 x.d., Straits Steamships \$15.50, Henry Waugh \$1.60, Wearne Bros. \$3.22½ to \$3.20 to \$3.22½.

Tins. Hong Fatt \$1.19, Johan \$1.43 to \$1.60, Kuchais \$2.40 to \$2.50 to \$2.42½, Meru Tin 9d. Petaling \$3.40 & \$3.47½ to \$3.40, Rantau \$1.65 to \$1.70, Sungei Ways \$3.85 to \$3.95, Taiping Consol. \$1.85 & \$1.87½. Austral Amal. 19/7½ to 19/10½ to 19/9, Austral Malay 41/6, Consol Tin Dredging A.2/11, Kampong Kamunting 8/3 & 8/9, Kramat Tin 9/9, Kuala Kampar 40/-, Lower Perak 17/10½ to 17/6, Rawang Tin 11/1½, Sungei Bidor 7/6, Tongkah Harbour 11/3 to 11/- c.d. Malayan Tin 13/4 & 13/6, Sungei Besi 11/6½.

Rubber. Ayer Hitam \$1.15, Bangawan 6½d. Batu Lintang \$1.90 c.d. Benta \$1.22, Bukit Tupah 1/6½, Glenealy \$1.70, Jimah \$1.20 to \$1.22½ x.d. Jeram Kuantan \$2.45, Kempas \$1.97½ to \$2.06 to \$2.05 c.d. Kuala Sidim \$2.0 to \$2.20, Malay Rubber Planters 3/4½ & 3/4½ to 3/2½, Mentakab \$1.35 x.c.r., Pajam \$1.19, Port Dickson Lukut 3/6, Pahang Para 11½d. & 1/-, Radella \$1.20, Tapahs \$2.95 to \$3.00, Teluk Anson \$3.00.

Overseas Investments. British. Ashe Chemicals 11d. Burnah Oil 84/- British Tyre Rubber 11/6,

HONGKONG AND FAR EASTERN TRADE REPORTS

November 1—10, 1956

With the Suez Canal blocked and all ships diverted around the Cape, shipping companies re-introduced on November 7, the 15% surcharge on all cargoes to and from UK and Europe. In addition to the increased freight, shipments from Europe will be delayed because the trip around the Cape takes about 10 days more than the route via Suez. Similarly, deliveries of HK products to UK and Europe will take longer time and cost more. In view of the increased cost of replenishments and the delayed arrival of many indents, dealers here were hoarding their stocks for higher prices. Demand from Korea and SE Asia was strong but buying offers in most cases were too low to interest exporters here. Booking of paper and metals from Europe was slow because there were only a few offers from that source. Dealers ordered more supplies from Japan in spite of the slight increase in indents. US dollars continued to edge up discouraging importers from placing big orders for American goods. No one can predict the outcome of the discord over the Middle East but a major war at the present is unlikely and there are no other apparent serious effects besides the increased freight charge and the prolonged shipping period.

China Trade: More than 200 local dealers in Chinese products went to Canton last week to attend the opening of the Commodity Exhibition there. Meanwhile China shipped here more foodstuff but cut the supply of beans and oilseeds. One consignment of oilseeds which reached here last week was for transshipment to Japan. Even the supply of live hogs to the local market was manipulated in such a way that pork retailers here were asked to boycott Taiwan hogs if they wished to handle Communist pigs. From here, China made selective purchases in metals, pharmaceuticals and industrial chemicals but many transactions were handicapped by low buying offers. Exports to China during the period included about 1,500 tons of wool tops, raw sugar, industrial chemicals and metals bought last month.

Japan Trade: In spite of Taipei's efforts to supply Japan with bananas at a reduced price, Tokyo decided to import from China because Peking had

offered 2,000 tons of bananas at a much lower price. Furthermore, the shipment will be made as payment for Japanese products sold at the trade fair in Peking. Japan used to buy about US\$4.5 million worth of bananas every year from Taiwan. In SE Asia, Japan will invest Y3,600 million for the proposed economic cooperation with Cambodia. Y1,500 million will be used for the establishment of a summer resort city on the Kirirrom plateau west of Phnompenh and the balance for economic developments in Phnompenh. Cargo movements between HK and Japan were very active: 12 vessels arrived with more than 4,000 tons of cement, textiles, sundries and Xmas goods and 11 ships left here for Japanese ports with 10,000 tons of cargoes including 4,950 tons iron ore, 2,500 tons scrap iron, 1,200 tons steel bars and plates and large quantities of beans and oilseeds. Purchasing of oilseeds, beans, steel bars and plates from here slowed down but demand for scrap iron remained strong throughout the 10-day period. Better demand from SE Asia and Korea for Japanese products encouraged dealers here to book more supplies from Japan in spite of the slight increase in most indents. Principal items booked were rayon yarn, woollen and cotton textiles, chinaware, paper, toys, cement, marine products, toys and bicycles.

UK and Europe: It appears that the Suez Canal will be blocked for months before it could be used again and that there might be another 15% increase in the surcharge for all cargoes to and from Europe. This, however, does not mean that HK's trade with Europe and UK will come to a standstill because the route around the Cape means the difference of only about 10 days. Freight increase might curtail the volume of imports from Europe to a certain extent but as the increase is not limited to HK, it should not have too serious an effect on HK's entrepot trade in European and UK goods. CIF-Europe and CIF-UK prices for HK products will be higher but prices for Japanese and other competitive goods will also go up. What worried local dealers and manufacturers was the increase in fob cost of supplies from UK and Europe. Meanwhile ships which passed through the Suez before the blockade brought here over 5,000 tons of cargoes from UK and about 7,000 tons from Europe; principal items were metals, textiles, canned food, automobiles, paper, fertilizer, chemicals and pharmaceuticals. Many shipments were delayed and suppliers cabled importers here to amend the date and increase the amount of their L/Cs to cover the increased freight charges and the longer route around the Cape. Exports to UK totalled 5,000 tons and

to Europe about 1,000 tons consisting chiefly of HK products and China produce.

Trade with US: Cargo movements between HK and US were unaffected by the closing of the Suez Canal. Textile mills ordered large quantities of US cotton with P/As (purchasing authorizations) received from Djakarta for the exports of HK yarn and cloth to Indonesia. The sharp rise of US dollar rates in the local market, however, curtailed the booking of other supplies from US. The new high reached during the 10-day period were: Notes \$6.38 and TT \$6.41 per US\$1.

Indonesia Trade: In addition to orders for HK cotton yarn and piece goods purchased under the US cotton for HK textiles agreement, Djakarta also ordered large consignments of winter underwear, Japanese cloth and small quantities of enamelware, aluminum ware, raincoat, pressure lamps, torch and paper. The purchase of cotton textiles from here has already reached the US\$3.5 million limit and authorities there no longer accept applications for such imports from HK. There were, however, more enquiries for knitwear, metalware and other HK products towards last week-end. Exports to Djakarta during the period totalled about 1,000 tons consisting chiefly of HK manufactures. About 1,000 tons of Chinese steel bars and paper were transhipped to Djakarta. Imports from Indonesia included 3,000 tons of raw sugar and 700 tons of rattan and other staples.

Thailand Trade: Imports of Thai rice remained heavy. Exports to Bangkok exceeded 7,000 tons and principal items were: Chinese nails, herb medicines, window glass, paper, cotton textiles, chinaware and foodstuff; Japanese paper, cotton and woollen blankets; and HK yarn, metalware, steel bars, knitwear, fishing net and torch.

Korea Trade: Expecting more allocations of foreign exchange during November, importers in Seoul sent here more enquiries for paper, chemicals and pharmaceuticals; many transactions failed to conclude because prices here for most commodities were marked up. Shipments to Pusan totalled 1,500 tons and consisted of paper, yarn, chemicals, and metals.

Taiwan Trade: Imports of live hogs, fresh ginger, tea, camphor products and other staples from Taiwan increased but exports to Taiwan showed no improvement. Authorities in Taipei were told by overseas Chinese who attended the economic conference there that a central trade agency should be set up by the Government to study the demand of overseas markets and the condition of Taiwan industries and that the Government should, in every way, help manufacturers and exporters in Taiwan as well as Chinese overseas

J. Bibby 21/10½, J. & P. Coates 25/8, English Sewing Cotton 24/1½, Educational Supply Assn. 40/6, Imperial Chemical Ords 41/-, Land Securities 21/9 Metal Traders 7/7½, Ultramar Oil 53/- & 53/1½.

Australian. Northern Hercules A.1/6. Peko A.9/8, Western Titanium A.9/3.

African. O.K. Bazaar "B" 47/-

Canadian. Imperial Oil of Canada Lon. \$111.00.

to do more business particularly in areas infatuated with Peking's political trade.

Malaya & Singapore: Shipments to Singapore and other Malayan ports totalled 8,000 tons including 1,300 tons of sugar and large quantities of cement, shirt, cotton textiles, plastic goods, torch and batteries, enamelware, fruits and vegetables, canned food, herb medicines, tea, and sundry provisions. Imports of rubber, firewood and charcoal amounted to only 600 tons including the 300 tons of rubber for transshipment to Taiwan.

Cambodia, Laos and South Vietnam: During the 10-day period outward shipments of goods ordered by these states last month totalled 1,000 tons. Demand from Phnompenh for metals, chemicals, paper, woollen yarn, textiles, metalware, foodstuff and herb medicine remained strong but many transactions were hindered by low buying offers especially after prices here had advanced. Importers in Vientiane sent here more enquiries than orders while demand from Saigon turned dull. Imports of staples and scrap iron from these states remained active.

India and Pakistan: Pakistan shipped large quantities of yarn to the local market but India sent here only small consignments of cotton and other staples. Exports to these two countries consisted chiefly of cassia lignea and broken cassia, torch, screws, cigarettes and stationery.

Burma Trade: There were more enquiries and orders from Burma after Rangoon had relaxed import control on a large number of commodities including paper, fishing net, photographic supplies, toys and toilet articles. Rangoon also accepted the tenders from local mills for the supply of 5,000 bales cotton yarn of 20 counts. Imports from Burma included 3,700 tons rice and 300 tons of beans.

Ceylon Trade: Enquiries from Colombo covered 2,000 tons potatoes, 500 tons green peas, 500 doz shirt, 500 doz underwear and some toys and stationery. Exports to Ceylon, however, were still limited by the lack of sufficient shipping space on vessels sailing from here to Colombo.

African Markets: The fighting in the Middle East only affected shipments from here to North Africa and those consignments to other parts of Africa via Europe. Direct exports to East, South and West Africa were unaffected. One vessel left here direct for West African ports with 3,500 tons of cargoes including 1,000 tons enamelware and large quantities of cotton and rayon textiles, rubber footwear, torch, pressure lamps, plastic goods. Imports included 275 bales cotton from East Africa and 50 tons groundnut oil and other staples from South Africa.

North Borneo: Imports exceeded 8,500 tons; principal items were scrap iron, timber, firewood, charcoal, coconuts, rubber, cow hide and coffee bean. Exports consisted chiefly of building materials. Dealers here believed that there would be more orders from Sandakan during the month.

Australia: About 1,000 tons of HK manufactured shirt, rubber shoes, vacuum flask, rattanware, furniture and plastic goods left here for Australia during the period. Imports consisted chiefly of frozen meat, dairy products and wheat flour.

Middle East: Banks here no longer accept shipping documents for exports to the Middle East.

China Produce: Demand from Japan, Australia and SE Asia for popular items was steady throughout the period but the volume of business was limited by short stock of many produce. Europe was quiet during the first 7 days; towards last week-end, however, more enquiries reached here from West Germany, France and Scandinavian countries. There was no consignment of beans and oilseeds for the local market from China but supply from SE Asia was steady though limited in volume. Prices were buoyant. Besides oilseeds and beans, Japan bought woodoil, rosin, silk waste, coir fibre, graphite. Enquiries from Europe covered cassia lignea, peppermint oil, cassia oil, menthol crystal, feather, spun silk yarn, bamboo cane and dried ginger. Singapore and Penang favoured groundnut kernel, raw silk, gypsum, dried chilli and soya bean; Thailand booked cassia lignea; Cambodia absorbed raw silk; and Australia purchased woodoil and rosin.

Metals: Japan remained interested in scrap iron, steel bars and plates but buying offers for bars and plates were not as keen as those for scrap iron which advanced to \$480 per ton for the 1st choice quality. China enquired for bars, rods and plates but hiked quotations here discouraged buying. Local dealers were hoarding spot goods for higher prices. Large quantities of bars and other metals arrived from various sources but most consignments were already sold to Japan last month. The increased cost of replenishments from Europe on account of marked-up freight (now 190s per ton plus 15%), the advanced indents of US steels particularly when US dollars continued to edge up and the increased volume of speculative transactions boasted prices for bars and plates and kept the market buoyant.

Paper: Demand from Korea and SE Asia was strong but the turnover was not very impressive because dealers here marked up quotations for most items while buying offers failed to catch up with the rising market. Following the increased cost of Euro-

pean indents, replenishment cost of Japanese and Chinese products scaled up too. New offers from Japan were all for shipments after December while supply from China was limited to small quantities. Meanwhile, the arrival of about HK\$1 million worth of paper from Europe was delayed on account of the Suez blockade. The market was therefore very bullish. Other developments during the period were Taiwan's offer to supply newsprint in reels to the local market, Korea's purchase of more Japanese goods from here, and the sudden increase in demand from Thailand. Items which retained strong demand included: newsprint in reams, art and woodfree printing, packing paper, manifold, transparent cellulose paper, flint, aluminum foil, duplex and straw boards.

Industrial Chemicals: Cambodia, Korea, China and local factories provided limited demand for a selective number of items including gum arabic, petrolatum, shellac, sodium bicarbonate and hydrosulphite, chlorate of potash, magnesium sulphate, boric acid and stearic acid. Gum arabic attracted also speculative buying because prices here were below new indents. Petrolatum first eased under heavy supply but later improved on strong speculative purchases. Prices in general firmed on increased replenishment cost.

Pharmaceuticals: Exports were limited to small quantities of dihydrostreptomycin, salicylic acid, sulfadiazine, quinine tablets, phenacetin, amidopyrin, neosalvarsan, ammonium bromide and phenolphthalein to India, SE Asia and Korea. There were also speculative purchases in penicillin tablets, dihydrostreptomycin and isoniazide tablets. The market, however, was not much affected by the increase in freight charges because most items were not bulky in packing and many consignments from Europe were usually sent here by air freight.

Cotton Yarn: HK yarn was very firm on strong demand from local weavers, Thailand, Burma and Indonesia. The increased cost of US cotton further stimulated prices of local yarn. Pakistan products first improved on increased cost and orders from Thailand but later eased under new arrivals. Japanese and Indian brands were dull.

Cotton Piece Goods: Indonesia stopped purchasing HK cloth after the booking of 500,000 pcs from local mills. There were also enquiries from Djakarta for Japanese piecegoods which firmed also on advanced indents. Chinese grey and jeans retained steady local demand; prices improved towards week-end when stock dwindled.

Rice: Local demand remained very steady throughout the period. Rice dealers marked up prices after the situation in the Middle East deteriorated but the increases were not

sharp because supply from various sources was abundant.

Wheat Flour: American and Canadian brands advanced on increased US and Canadian dollar rates. HK products firmed on steady local demand and orders from Burma and other SE Asian countries.

Sugar: Taiwan sugar first improved on short stock but later depressed by the unexpected arrival of 150 tons which were originally intended for Egypt. HK products remained very firm on steady demand from Singapore and Penang. Indonesian raw sugar attracted orders from China but the arrival of 3,000 tons from Djakarta prevented gains. Philippine brown was weak under heavy stock.

Cement: Imports from Japan remained heavy but local demand was strong; prices firm. Green Island products registered large exports to Singapore and other Malayan ports. Chinese cement was firm on low stock.

Sundry Provisions: Thailand and Singapore provided steady demand for popular items while supply from China and Japan remained adequate. Mushroom and walnut meat firmed on low stock but beanstuck and dates declined under heavy supply.

Sundries: Chinese and Japanese window glass retained steady demand from North Borneo and South Vietnam. Woollen knitting yarn enjoyed strong local demand and attracted orders from Cambodia; prices however failed to improve because supply was more than sufficient. Cotton and woollen blankets were favoured by Bangkok and Saigon. Orders from Bangkok also included cigarette lighters and flint.

Hongkong Products: A 20-member delegation from Bangkok arrived last week to attend the opening of the HK Products Exhibition later this month. Meanwhile, manufacturers here were concerned with the closing of the Suez Canal because the route around the Cape will increase the cost of HK products to Europe and UK. Cost of raw materials, particularly rubber and metals, also advanced forcing prices further up. However, these increases affect manufacturers in Japan and other countries as well and should not make HK goods less competitive in UK and European markets.

HONGKONG COMPANY INCORPORATIONS

The following new private companies were incorporated in Hongkong during October 1956:—

James King, Limited—Gold- and silver-smiths; Nominal Capital, \$300,000; Subscribers—Denis H. Hazell, 9 Ice House Street, Hongkong, Company Director; James Joseph King, 20 Braga Circuit, Kowloon, Silver-smith.

Po Hing Land Investment Company Limited—Nominal Capital, \$300,000; Subscriber—K. M. Cheung, 10 Leighton Hill Road, Hongkong, Merchant; Lui Bing Lam, 26 Po Hing Fong, Hongkong, Teacher.

Chue Lung Sauce Soy Factory Company, Limited—Nominal Capital, \$150,000; Registered Office, 80 Castle Peak Road, Kowloon; Subscribers—Chan Lock Sang, 134 Wanchai Road, Hongkong, Merchant; Chan Kang Sang, 63 Des Voeux Road West, Hongkong, Merchant.

Cathay Film Productions Limited—Nominal Capital, \$500,000; Subscribers—Yien Chuen, 135 Boundary Street, Kowloon, Film Producing Director; Chung Chi-Wen, 11B Broom Road, Hongkong, Motion Picture Executive.

Marshall Scott (Asia) Limited—Importers and exporters; Nominal Capital, \$100,000; Subscribers—B. N. Cooper, 27 South Bay Road, Repulse Bay, Hongkong, Solicitor; P. J. Griffiths, 27 South Bay Road, Repulse Bay, Hongkong, Solicitor.

Wah Keong Rubber Manufactory, Limited—Nominal Capital, \$1,200,000; Registered Office, 4 Anchor Street, Kowloon; Subscribers—Fong Tze Yan, 240A Prince Edward Road, Kowloon, Merchant; Fong Chung Chu, same address, Merchant.

The Swan Restaurant Limited—Nominal Capital, \$250,000; Registered Office, 45 Bonham Strand East, Hongkong; Subscribers—George Cole, 508 Nathan Road, Kowloon, Merchant; Chau Shing, Room 103, 26 Ma Tau Wei Road, Kowloon, Merchant.

Combinus Investments, Limited—Nominal Capital, \$5,000,000; Subscribers—Li Fook Shu, 6 Kennedy Road, Hongkong, Chartered Accountant; J. S. Lee, 74 Kennedy Road, Hongkong, Merchant.

Elmco Limited—Importers and exporters; Nominal Capital, \$200,000; Registered Office, Room 510, 9 Ice House Street, Hongkong; Subscribers—Charles Herbert Duff, C-1, Clovelly Court, May Road, Hongkong, Civil Engineer; M. C. H. Yeung, 302 Grand View Mansions, Hongkong, Merchant.

Caroline & Company Limited—An investment company; Nominal Capital, \$1 million; Subscribers—Thomas Hoult Trevor, Hongkong Club, Army Officer; James Boyle, Dina House, Hongkong, Merchant; Harold Spencer Cooper, Dina House, Hongkong, Merchant; Noel Victor Amor Croucher, Holland House, Hongkong, Stock Broker; Gladys Enriquetta Mills, Miramar Hotel, Kowloon, Widow; Denys Connolly, Hongkong Club, Chartered Accountant; Fenwick Deane Hammond, Dina House, Hongkong, Solicitor.

Far East Trade and Industrial Development Corporation, Limited—Importers and exporters; Nominal Capital, \$2 million; Registered Office, 23 Wing Wo Street, Hongkong; Subscribers—Chan Kee Hwa, 27 Tin Hau Temple Street, Hongkong, Merchant; Lok Bok Sim, 2 Bukit Timah Road, 5½ Miles, Singapore, Merchant; Leong Kwai Chun, 506B The Peak, Hongkong, Merchant.

The Euro-China Trading Company (1956) Limited—Quarry masters; Nominal Capital, \$150,000; Registered Office, 18 Bonham Strand East, Hongkong; Subscribers—Kwan Ton Yeo, 4 Pottinger Street, Hongkong, Merchant; Jue Hing You, 239 Sai Yee Street, Kowloon, Merchant.

Teck Tai Limited—Importers and exporters; Nominal Capital, \$300,000; Registered Office, c/o Brutton & Co., Windsor House, Hongkong; Subscribers—Chan Iu Che, 2C Broom Road, Hongkong, Merchant; Elviera Tan, 2C Broom Road, Hongkong, Married Woman.